Ontario

OFFICE OF THE PROVINCIAL AUDITOR

ANNUAL REPORT OF THE PROVINCIAL AUDITOR OF ONTARIO

For the year ended
March 31, 1986

Annual Report of the Provincial Auditor of Ontario

For the year ended
March 31, 1986

THE HONOURABLE
HUGH EDIGHOFFER, M.P.P.
Speaker of the Assembly
Province of Ontario

Dear Sir:

I am pleased to transmit my report for the year ended March 31, 1986, for submission to the Assembly in accordance with the provisions of section 12 (1) of the Audit Act.

D.F. Archer

D.F. Archer, F.C.A.,
Provincial Auditor.
Toronto, November 25, 1986.

Ontario

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CHAPTER 1 - INTRODUCTION

1.1
Submission of Annual Report

This Report has been prepared pursuant to the Audit Act, which requires the Provincial Auditor's Report to be submitted annually to the Speaker of the Assembly.

Timetable for Preparation of Annual Report

To comply with the Audit Act, and to allow the required time for the preparation and printing process, our annual report covers all audits completed to the end of each September. This Report, therefore, covers audit activity through the twelve month period from October 1985 to September 1986.

As a result of printing deadlines, it is not possible to include in this Report any replies from ministries and agencies of the Crown received subsequent to October 17, 1986. However, all such replies are forwarded by this Office to the Standing Committee on Public Accounts of the Legislature after this Report has been tabled.

1.2
Basis of Reporting

The contents of this Report are prescribed by section 12(2) of the Audit Act. Its purpose is to report on those matters which have been observed and which, in our opinion, would be considered of significance to the Legislative Assembly. In many respects, therefore, this is a report by exception.

Reporting in this manner may unduly emphasize deficiencies without giving credit for the many situations where no significant irregularities were observed.

The reader is cautioned against drawing unwarranted conclusions from the reporting of observed instances. Unless otherwise indicated, observed instances are simply that. It would be incorrect for example, for the reader to conclude that other similar transactions or activities of the particular ministry or agency were handled in a like manner.

1.3
Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports

It is our practice to follow up on the status of suggested corrective action and recommendations during subsequent audits. In this connection, the status of suggested corrective action and recommendations contained in the body of our 1985 Report and unresolved matters from previous reports is indicated in Exhibit 8 of this Report.

CHAPTER 2 - SIGNIFICANT AUDIT FINDINGS

2.1
Introductory Comments

With a budget of over $30 billion, the operations of the Ontario government represent a huge and complex undertaking.

Public business should be conducted in a way that makes best possible use of public funds. Our job is to inform the Legislature whether the government's financial and management systems are in order, and to point out any deficiencies.

2.2
Overall Assessment

On the whole we found that the areas audited during the past year were administered in a satisfactory manner. Indeed, several audits disclosed no matters of major significance. With certain other audits, although weaknesses and deficiencies were noted, the program activities and systems reviewed were found to be generally well controlled.

In some audits, however, we concluded that performance was not satisfactory. Audits in this category give rise to most of the observations contained in this Report.

We are pleased to report that we received all the information and explanations required in carrying out the work of the Office.

2.3
Report Highlights

Government Management Practices and Accountability

In January, 1985 a major study dealing with management practices and accountability in government was completed. We have been reviewing the government's progress in addressing the results of the study.

In the past year we have observed a concerted effort on the government's part to consider and implement the study's recommendations. There has been a renewed emphasis on accountability relationships, and administrative policies and practices are undergoing thorough review and revision. Greater attention has been focused on values in the working environment and on executive planning and development. Furthermore, the government recognizes that the processes for improvement are ongoing and that continued commitment is required to achieve a desired enhancement in accountability and in the management of human resources.

Poor Administrative Practices

A number of our audits disclosed instances of poor administrative and management practices. In several cases, the dollar amounts involved were considerable. The cumulative effect of poor systems of control results in the waste of public funds.

- The government should improve the administration of its tax collection function. Taxes collected from corporations by the Ministry of Revenue is a case in point. At $2.6 billion, corporation taxes provided the third largest source of tax revenue to Ontario in 1986. However, we found that less than one per cent of the taxroll's 300,000 corporations were audited in the 1985 fiscal year. Furthermore, audit backlogs were so large that the Province may forego as much as $2.2 million annually. (Section 4.11)

In several of our audits, we noted a lack of control over resources, and that large sums of money were spent on programs where accountability for results was inadequate. In other cases, because of uneconomical and inefficient practices, taxpayers weren't receiving good value for their tax dollars.

- The government is responsible for hundreds of millions of dollars worth of movable assets, that is, property such as equipment and furniture. Our government-wide review found that controls to account for and safeguard movable assets were inadequate and ineffective. Control of movable assets was not a high priority in ministries. (Section 3.5)
- In 1986 the Development Corporations had a $400 million portfolio of loans receivable. We found that accountability for lending results was lacking. We also observed that losses were incurred on some projects because of a lack of evaluation and proper approval procedures. (Section 5.2)

- The lack of active monitoring of large transit projects in the Ministry of Transportation and Communications contributed to significant cost overruns. The lack of an upper limit on the amount of Ministry funding was also a contributing factor. One transit organization's estimated costs of a rapid transit project rose from $97 million to $389 million, while another organization's project costs increased from $134 million to $196 million. (Section 4.13)
- In 1986 the Ministry of Tourism and Recreation spent $60 million on recreation grants and $13.4 million on sports and fitness financial assistance programs. Our examination of projects funded indicated that ongoing monitoring of projects and activities funded was weak. (Section 4.12)

We were also concerned about weaknesses in the management and control over EDP, as noted in several of our audits. Some critical information files, for example, were not protected against unauthorized access and alteration. (eg. Section 3.3)

Better Services to the Public

A number of our audits revealed that more care in program delivery and stricter compliance with regulations would have definitely improved the services provided by the government to the public. These services relate to quality of life and financial protection.

Quality of Life Services

- The Ministry of Community and Social Services spent $214 million in 1985 funding and regulating the operations of homes for the aged. Our audit observed that inspection procedures did not adequately ensure that homes were complying with standards of care, safety and financial requirements. Actual inspections were infrequent and poorly documented. (Section 4.3)
- We found a similar situation in the Ministry of Health's public health programs. In 1986 the Ministry provided $93.3 million in grants to local health agencies. Among other findings, we noted that the Ministry was not inspecting agencies to ensure that required public health services were being carried out. Furthermore, we found that health agencies were not complying with mandatory guidelines. (Section 4.6)
- The Ministry of Labour's Occupational Health and Safety Program revealed a further example of poor inspection procedures. We found that a significant number of companies warranting inspection had not been identified for inspection. Also, in a majority of prosecutions for safety violations, prosecution was initiated only after an accident had occurred. (Section 4.8)

Financial Protection Services

- There are over 850 credit unions in Ontario with approximately $7.0 billion in assets. We observed that the branch in the Ministry of Financial Institutions responsible for credit unions lacked adequate management controls and procedures to effectively monitor credit union compliance with legislation. (Section 4.5)
- Licensed bingo events and lotteries generated gross revenues in excess of $450 million in 1986. We concluded that the Lotteries Branch in the Ministry of Consumer and Commercial Relations lacked sufficient resources and that its procedures were inadequate to minimize fraudulent and unethical practices. (Section 4.4)

CHAPTER 3 - COMMENTS ON GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS

3.1

Introductory Comments

Most of the comments contained in this segment of the Report pertain to audit observations and recommendations resulting from government-wide reviews. A list of all reviews completed during the year is included in Exhibit 4 to this Report.

3.2

Government Management Practices and Accountability

In section 3.2 of our 1985 Report we indicated that in January 1985 "A Study of Management and Accountability in the Government of Ontario" was issued by two consulting firms selected to carry out a major study of government management practices and accountability. We set out the nature of the review and reporting processes, and the overall conclusions of the Study. The status of the Study's recommendations was described under the headings of:

- the accountability structure;
- the Manual of Administration; and
- the working climate and the development of senior personnel.

In this report we will update the status of the recommendations to reflect the current situation.

THE ACCOUNTABILITY STRUCTURE

Minister's Responsibility and Accountability

The Study's first major recommendation emphasized that the minister should continue to be totally responsible for ministry performance.

In a democratic parliamentary system the Government is collectively accountable to the public for its policies, programs and administration. Ministers are accountable to the Cabinet and to the Legislature and thence to the public for all aspects of a ministry's performance. This relationship can be referred to as public or external accountability.

This accountability is formalized in the legislation establishing the ministry, where wording such as the following is normally found:

- The Minister shall preside over and have charge of the Ministry;
- The Minister is responsible for the administration of this Act and any Acts that are assigned to him by the Legislature or by the Lieutenant Governor in Council.

The minister's external accountability is demonstrated most visibly in the question period in the Legislature and in the review of the ministry's Estimates.

The minister is assisted by a deputy minister whose responsibility it is to ensure that policies are carried out, programs are administered effectively and efficiently, and that the ministry is well managed. In addition, deputy ministers are responsible for managerial performance to the Premier and to Management Board of Cabinet. It is with these latter internal accountability relationships that the Study is primarily concerned and has made recommendations to increase accountability.

The Deputy Ministers and the Premier

The Premier appoints all deputy ministers, assigns them to ministries and sets out his expectations of them. The Study's recommendations focused on the mechanisms required for assigning and reporting on the delegation of responsibility and accountability.

The Secretary of Cabinet (the Secretary) serves as the link between the Premier and the deputy ministers. The Study recommended that the Secretary carry out an annual accountability review with each deputy minister.

Bearing in mind the long-term strategic directions set out by the Premier, the deputy minister establishes his or her performance goals for the coming year. The Secretary's reviews would then focus on how well the deputy minister had met these goals. The review would cover areas such as:

- overall government objectives and their priority with respect to the ministry;
- issues of government-wide interest and their importance to the deputy minister;
- deputy minister's accomplishments and forthcoming challenges;
- priority matters raised by the deputy minister.

Before meeting with the deputy minister for the review, the Secretary would have sought input from others, such as the deputy's minister and officials at central agencies, who have regular involvement with the ministry. The results of the discussion between the Secretary and the deputy minister would be reviewed by the Premier and the Secretary. The Secretary feeds back the results of the evaluation to the deputy minister. As it has been recognized that the performance of deputy ministers needs to be regularly assessed, a performance appraisal system has been agreed to in principle, with implementation beginning October 31.

Although the Premier does not meet with deputy ministers individually as recommended by the Study, he has met with deputy ministers to reinforce their responsibility to apply the Manual of Administration directives. Also, when the report, Managing Human Resources in the Ontario Public Service, was issued, the Premier addressed the deputy ministers and said they would be held responsible for developing ministry human resources. At the same time the Premier also stressed the long term goals of the Government. In the fall of 1986 the Premier is scheduled to address the deputy ministers regarding his management and policy expectations for the coming year.

The Deputy Ministers and Management Board

(a) Accountability Relationship Defined

The Study found that in the area of management policies (defined as the combination of all the policies and rules approved by Management Board) the accountability relationship and methods between the Board and the deputy ministers were unclear. A formal delegation of authority was required. The Study thus recommended that Management Board define an accountability relationship for management policies between it and the deputy ministers, based upon the delegation of authority by the Board to the deputies of individual ministries.

Management Board will be issuing a "Directive on Accountability", to form part of the revised Manual of Administration, with the purpose of "defining the accountability of the Deputy Head of each ministry and Management Board of Cabinet as it pertains to financial and administrative practice." One of the important aspects of this accountability relationship is the delegation of authority, primarily emanating from individual directives. Another aspect is the means of ensuring compliance with delegated authority, which is primarily covered by the mandatory requirements of the Directive on Accountability.

(i) Delegation of Authority

Each directive in the revised Manual of Administration indicates the degree of authority delegated to the deputy ministers. In a number of directives Management Board has delegated administrative responsibility to deputy heads, while retaining policy making responsibility. This removes the Board from the day-to-day administration and allows it to evaluate the performance of the policy and of the ministries.

In other directives the Board establishes restrictions within which ministries may act. For example, when the estimated value of a consulting services assignment exceeds a specified sum, Management Board approval of the assignment must be obtained before any request for proposals is issued to vendors.

If ministries wish to obtain additional delegation of authority, or a general exemption from the requirements of a directive, they must prepare a submission for Management Board justifying their proposal on the basis of operational need and ministry preparedness. Approval of the submission by Management Board gives the ministries the authority to implement and adhere to a ministry directive for the area concerned.

The Study suggested that the delegation of authority would be given through a signed agreement. However, in actual practice the degree of delegated authority to a ministry is documented in several ways:

- in the administrative directives of the Board;
- in a Management Board minute which would give approval to a ministry's information technology strategic plan;
- in a Management Board minute, where a ministry has negotiated a greater degree of delegated authority;
- items agreed to in the Ministry Management Review.

(ii) Compliance with Delegated Authority

One of the principles set out in the Directive on Accountability is that the deputy minister is responsible to Management Board for the efficient and effective management of ministry programs and for compliance with the Board's directives. Three of the most relevant mandatory requirements of the Directive on Accountability are:

- *"Deputy Heads must develop appropriate planning, management and control systems, in order that both the Deputy Head and the Board can be assured that those responsibilities delegated by Management Board are being discharged according to expectation. Such control systems will include sufficient audit capacity."*

  Management Board ensures appropriateness by examination at the staff level prior to the Ministry Management Review (see following sub-section) and prior to the granting of additional levels of delegated authority.

- *"Deputy Heads must inform the Secretary of Management Board, as set out in the directives, whenever it comes to their attention that ministry staff have, in a significant way, operated outside of the Manual of Administration."*

  The Directive on Accountability requires all Deputy Heads to develop appropriate control systems, including sufficient audit capacity and procedures which facilitate the reporting of significant cases of non-compliance to Management Board. Although no specific request is made of ministries to indicate their procedures, such procedures will be reviewed as part of the staff preparation for the Ministry Management Review.

- *"In cases of repeated non-compliance the Secretary of Management Board will institute appropriate mechanisms to ensure a thorough review of the situation and a fair solution to the problem."*

  Such mechanisms may include:

  — asking the ministry to report back to the Board;

  — asking the ministry's internal audit branch for a report; or

  — assigning a group of the Board's staff to investigate the issue.

  As an action of last resort Management Board can withdraw its delegated authority.

(b) Ministry Management Review

The Study recommended that the annual management review with each deputy minister be extended to cover all the subjects within Management Board's responsibility. In our 1985 Report we indicated that the annual review, previously known as the "Deputy Minister's 100 Minutes", had been revised to encompass additional aspects of management accountability. Whereas the achievement of program results was once the almost exclusive focus of the review, other aspects are now included such as human resources management, general administrative management, information systems management and internal auditing.

Specific guidance on the process and content of the Ministry Management Review is contained in a Management Board guideline to the Directive on Accountability. This Review is the broad structure within which the accountability relationship between Management Board and each ministry will take place.

Typically this will occur every two years. Although the Study had recommended an annual management review, Management Board decided to carry out a more comprehensive review, requiring more preparation and review time, for approximately one half of the ministries each year.

The accountability relationship will include an ongoing dialogue between each ministry and Management Board regarding ministry performance during the time between two successive Ministry Management Reviews.

According to the accountability guideline "the benefit of this new accountability relationship is that it will dispense with detailed control in many areas, allowing ministries more freedom of action to produce program results."

The Study recommended that the Ministry Management Review include the minister and the deputy minister, the Chairman and the Secretary of Management Board and the Chairman of the Civil Service Commission. Subsequently, a summary meeting was to be held involving the minister, the deputy minister and Management Board of Cabinet (selected Ministers of the Cabinet).

The accountability guideline indicates that the attendance of the minister is not required. We understand that it is not considered necessary for the minister to attend as the focus of the review is not on policy matters; rather the focus is on managerial performance and the attainment of program results for which the deputy minister is responsible.

As the final step in the Ministry Management Review process the Chairman of Management Board will report to the Premier on the outcome of the discussions.

THE MANUAL OF ADMINISTRATION

The Study, in its numerous recommendations regarding the Ontario Manual of Administration, proposed that the content be reviewed with the objective of simplifying and clarifying the Manual's directives. As noted in our 1985 Report a framework for a revised Manual had been developed and was to include the corporate values and philosophies of management within the Ontario Public Service. Major revisions have been made to the Manual and, although some policies remain to be reviewed, Management Board will be distributing the new manual in the near future. Henceforth, the manual will be known as the "Management Board of Cabinet Directives" manual.

Implications of the Revisions

The deputy ministers are held accountable for the decisions made within the authority delegated by Management Board. The new directives are intended to delegate more responsibility to the deputy ministers.

The general intention of the revisions is to have more detail in the ministries' manuals and less in the Directives manual. The ministries will be expected to incorporate the necessary detailed policies and procedures into their administrative manuals to ensure compliance with the Management Board Directives. The new Directives manual concentrates on establishing the principles, mandatory requirements and the responsibilities of the major players and leaves the ministries to define the level of procedural detail they consider necessary.

Nature of Revised Content

An introductory section to the new Management Board of Cabinet Directives outlines the objectives and purpose of the directives. Additionally, each directive begins with a statement of purpose.

The new Directives manual also includes the "corporate values" to which we referred in our 1985 Report. The corporate values are included in the manual as follows:

> *"CORPORATE VALUES*
>
> ***A clear statement of corporate values is the best foundation for common organizational goals and objectives. The following corporate values must be communicated to — and provide the direction and purpose for the daily activities of — all employees of the Government of Ontario."***

The manual then continues by citing the three major corporate values and the manner in which they are to be effected. The values are:

- excellence in service to the public;
- employees as a critical resource;
- excellence in management.

The manual concludes by stating that new directives and "best practices" contained in the accompanying guidelines reflect these corporate values.

Monitoring and Updating Process

On an annual basis Management Board proposes to conduct a review of the directives in order to ensure that they are up to date with changing needs. Management Board intends to monitor the application of each directive through regular contact with ministry staff and through participation on a number of interministerial committees.

As an important part of the revisions to administrative directives, representatives of the internal audit community have tested the auditability of the directives and are developing audit guides to assist in the auditing of the directives.

Management Board has underway a number of initiatives to deal with corporate administrative/ management issues to be addressed in the Government Activity Review Program.

The need for a new policy, to be embodied in a directive, is identified in a number of ways, as for example, from decisions reached in Cabinet discussions, from interministerial committees or from Management Board members or staff. The steps involved in creating new policies start with the preparation of terms of reference and assignment of staff and conclude with Management Board approval.

Management Board, in conjunction with the Human Resources Secretariat, is considering a new management orientation program for managers which would cover the new Directives manual as well as other topics. Training courses on each new directive will not be given automatically but on an as required basis.

Postscript

Prior to revision the Ontario Manual of Administration was comprised of two volumes and a supplement. Volume 1, dealing with administrative matters, has become the new Management Board of Cabinet Directives manual. The volume has been considerably reduced and further reductions are planned as policies are reviewed. The number of directives has been reduced from 65 to 41. During the next year 21 policies that have not been rewritten are scheduled for review. Volume 2 and its Supplement contain personnel policies and procedures and provide, where appropriate, administrative direction for the administration of these policies. These are being revised by the Human Resources Secretariat.

THE WORKING CLIMATE AND THE DEVELOPMENT OF SENIOR PERSONNEL

Values in the Governmental Environment

The Study recommended that the deputy ministers take the lead in communicating and reinforcing accepted government-wide values in the working climate. Senior executives are strongly emphasizing the importance of the corporate values.

These values are intended to set the foundation upon which the deputy ministers and their ministries establish their detailed procedures and practices. However, an examination of the administrative, financial and management practices through the various requirements of Management Board (for example, the Estimates process, Ministry Management Review, administrative reports specified in the directives) will indicate whether the corporate values have been successfully integrated into a ministry.

Management Board Secretariat has included the corporate values in the revised Volume 1 of the Manual. The Human Resources Secretariat in its revision of Volume 2 will include the human resources values. A connection between these values and the corporate values is made when the Human Resources

Secretariat states "the human resources management principles of the Secretariat are based on fundamental values which confirm that employees are a critical resource and that fairness and equity are the cornerstones of human resources management policies."

The Human Resources Secretariat has included human resources values in its executive education programs and has developed a "Corporate Perspectives" program for senior executives of government related specifically to the discussion of corporate values.

Executive Planning and Development

The Study recommended that "the government-wide commitment to executive planning and development be intensified, and deputy ministers have the prime role in carrying out the executive planning and development program."

One of the major initiatives that addressed this recommendation was the review of human resource policies, programs and structure that resulted in the "Managing Human Resources in the Ontario Public Service" report in March 1986. The recommendations of the report covered three broad areas: organizational structure; human resources policies and practices; managing executive resources.

The recommendations relating to an enabling organizational structure were accepted by the government, with implementation to begin immediately. The recommendations in the other areas were to be reviewed by those individuals in the revised organizational structure who were assigned that responsibility. The following sections will outline the status of this initiative, and others, which relate to executive planning and development.

(a) Deputy Ministers

The deputy ministers and the government's central agencies (see later sections) have a shared interest and a common responsibility for developing senior executives. Also, employee development and succession planning is a primary responsibility of each manager and an integral part of each manager's responsibility and stewardship. The deputy ministers have become more involved than previously in executive planning and development. Although the Executive Development Committee consists of Deputies who attend on a regular basis, any Deputy may attend to discuss executive development issues, especially as they relate to his/her ministry.

Deputy ministers are developing human resource plans for their ministries with stronger emphasis being given to performance appraisals for all staff on an annual basis. Deputies continue to provide information for the maintenance of the Senior Manpower Planning Inventory with an emphasis on having complete and up-to-date information.

(b) Executive Development Committee(EDC)

A new organizational unit, the EDC, has replaced the Senior Appointments Advisory Committee (SAAC). The Committee consists of a core group of deputies and meets weekly. The Committee is chaired by the Secretary of Cabinet.

The EDC takes a more proactive role in policy setting than the SAAC. The EDC is concerned with major organizational proposals and reviews these before they are sent to Management Board for approval.

All ECP 4 and 5 staffing is routed to the EDC. The EDC can then recommend appointments to the Chairman of the Civil Service Commission. The EDC endeavours to maintain a good balance between open competition and the use of the Senior Manpower Planning Inventory.

(c) Civil Service Commission (CSC)

The Civil Service Commission has a new mandate and responsibilities which focus on monitoring and reporting on the performance of the government as an employer.

The CSC retains its responsibility for the administration of the Public Service Act and will continue to monitor and report on compliance with the merit principle. The CSC Chairman is still responsible for approving all appointments to the civil service. As previously, the CSC will delegate to the deputy ministers, to the greatest extent possible under the Public Service Act, its policy, administrative and human resource management responsibilities.

A memorandum of agreement has been signed by the Chairman of Management Board, the Chairman of the Executive Development Committee, the Deputy Minister of the Human Resources Secretariat and the Chairman of the Civil Service Commission. The Secretariat will carry out on behalf of the Commission the powers, duties and functions of the Commission, but where by the Public Service Act or its regulations the Commission's approval, or the like, is required for that carrying out, it shall obtain such approval.

The CSC will be taking a major role in the development and promotion of corporate values in respect of matters such as the government's philosophy for human resources management and political activity, conflict of interest rules and ethical conduct as they relate to Crown employees. The CSC currently consists of the Chairman, three deputy ministers and two assistant deputy ministers.

(d) Human Resources Secretariat (HRS)

The goal of the Secretariat is to achieve an employment climate in which excellence is valued and rewarded. The new HRS, headed by a deputy minister, reports to the Chairman of Management Board of Cabinet. The HRS is to be service oriented rather than performing a monitoring function. Thus the HRS provides advice and support to ministries with respect to human resources management policies and practices.

The HRS is now responsible for leadership in policy development, human resources strategic planning, and programs, policies and structures which support deputy ministers in managing their employees. The Secretariat also acts as Management Board's agent in the collective bargaining process and provides staff support to the Civil Service Commission.

The HRS also provides advice to Management Board of Cabinet on the human resources mangement implications of ministry proposals.

(e) Premier's Advisory Committee on Executive Resources (PAC)

The PAC has been appointed by the Premier and is comprised entirely of non-governmental members. The Council meets at least twice a year and reports directly to the Premier on such matters as deputy minister compensation, and human resource management strategies for senior executives, including deputy ministers. The PAC will review data on competitive compensation practices in the public and private sectors. The Council will also review the succession plans for deputy ministers and assistant deputy ministers. The PAC can recommend a compensation schedule to the boards of all public sector agencies, boards and commissions.

(f) Associate Secretary, Executive Resources

The final element in the new organizational structure is the new position of Associate Secretary, Executive Resources. This position reports to the Secretary of Cabinet and provides staff support to the EDC and the PAC. mainly with respect to compensation, and human resources planning and development for senior executives.

(g) Other Initiatives

(i) Corporate Human Resources Information System (CHRIS)

CHRIS is a human resources information system which will integrate and expand existing personnel and payroll systems. For example, the human resources information to be integrated includes:

- human resource planning at the strategic and operational levels;
- career planning;
- succession planning;
- training and development.

The anticipated starting date for phased implementation of the system is late 1986.

(ii) Youth Internship Program

To offset the growing trend towards an aging civil service and for improved human resources planning, 100 university graduates were hired in 1986 on a two year program. The salary costs are to be shared by the ministries and the Human Resources Secretariat. At the end of the two years it is anticipated that the ministries will place the trainees.

The Premier, in his March 5, 1986 speech to senior executives stressed the continuing importance of executive planning and development:

> "... deputy ministers and senior managers are going to be held responsible for developing their ministries' human resources in the same way they are responsible for managing its capital, programs and expenditures."

Performance Evaluation

(a) Performance Appraisals

(i) Background

The Study commented that, without a consistent and comprehensive approach to performance appraisal, the communication of essential values in the system would be impeded. The Study found a lack of uniformity in completing performance appraisals and recommended that "performance appraisal as a required practice across the civil service be fully implemented at all levels and serve to underscore desired values and performance expectations."

Performance appraisals are used to set performance goals, communicate expectations and provide feedback on performance. The government's corporate values and human resources values will also receive attention in the appraisal process.

(ii) Requirements and Application

Governmental policy requires performance to be appraised regularly, at least on an annual basis. The deputy minister of each ministry is responsible for implementing performance appraisal processes designed to meet the ministry's particular needs.

The experience of the Human Resources Secretariat, and that of our Office as well, is that while most ministries have a performance appraisal system some are carrying out their responsibilities better than others. The Managing Human Resources report, issued in March 1986, observed that "as currently applied... performance appraisal falls short of its potential in most cases."

The Premier, in a March 1986 speech to senior civil servants, stressed the importance of the appraisal process:

> "You are the people who must ensure that the entire Public Service knows what is expected of them, understands how they fit into the Government's overall plan, and receives regular feedback on their work. That is why individual performance reviews... will be more important than ever."

(iii) Role of the Human Resources Secretariat

It is a priority of the Secretariat to assist deputy ministers with their performance appraisal systems. The Secretariat is to assist in the implementation of human resources management policies and programs and provide consultative services to ministries. The Education Services area has given seminars attended by representatives from all ministries.

During the past year the Secretariat visited all the ministries to survey the nature of the performance appraisal systems in place. The results of the survey have been fed back to the ministries. The Human Resources Secretariat has as one of its major priorities the provision of leadership and assistance to Ministries in establishing sound performance reviews as part of their human resources management plans.

Recognition will be given to the fact that performance appraisal is an integral part of human resources management. Guidelines to assist ministries in terms of both the content and processes of performance appraisal design and delivery will be developed. Training consultation and implementation support to ministries in the enhancement of performance reviews will also be provided.

(b) Performance Problems

Performance problems can originate with the system or environment, or with the individual. In the first situation problems may have arisen because of inadequate communication; in the latter, the individual has not performed up to the standards of the position. Performance problems often are identified in conjunction with the performance appraisal process.

Recently more attention has been paid to dealing with performance problems. The Human Resources Secretariat is providing greater assistance to the ministries. A full-time resource person has been given the sole responsibility of acting as a consultant to senior levels in the ministries. Advice is given on what options are available in dealing with the more serious performance problems.

Executive Training

The Study recommended that "government-wide training be better utilized to reinforce the desired values in the working climate and to build working relationships that are important to executive effectiveness."

A core set of executive education programs, offered by the Human Resources Secretariat in a residential setting, contains the following:

- Corporate Management Development Program;
- Corporate Orientation Program;
- Corporate Issues Seminar;
- Senior Executive Seminar;
- Conference on Common Goals;
- Corporate Perspective Program.

A recently developed program, the Public Executive Program, has been designed as a three week residential executive program. Participants interact as professional peers, collectively concerned with the enhancement of managerial effectiveness in the public sector.

In addressing the Legislative Assembly on June 23, 1986, the Chairman of Management Board of Cabinet indicated that executive training had been amended to reflect the Study's recommendations.

Observations

We have observed a concerted effort to consider the Study's recommendations and assimilate them where practicable. There has been a renewed emphasis on accountability relationships and administrative policies and practices are undergoing thorough review and revision. Greater attention has been focused on values in the working environment and on executive planning and development. The government recognizes that the processes for improvement are ongoing and that continued commitment is required to achieve a desired enhancement in accountability and in the management of human resources.

3.3

Improvements Needed to the Provincial Government's Integrated Payroll, Personnel and Employee Benefits System

The provincial government's Integrated Payroll, Personnel and Employee Benefits System (IPPEBS) was developed in 1974 in response to the recommendations of a Management Board task force.

Payroll costs for the Ontario Public Service including employee benefits for the year ended March 31, 1986 totalled $2.8 billion.

SUMMARY

SCOPE AND OBJECTIVES

During our audit, we examined the controls and procedures in place at each of the ministries and Crown agencies that are users of the IPPEBS system. Our review covered classified employees (civil servants).

The testing of compliance with policies and procedures was based on a representative statistical sample of employees selected randomly from IPPEBS computer files. Thus, the results of our tests would provide a reasonably accurate reflection of what we would find if we looked at all classified employees. Our objectives were to assess:

- whether internal controls, including controls over the computerized processing of payroll, were adequate and functioning properly;
- whether payroll policies and procedures as set out in applicable legislation, the Ontario Manual of Administration and other directives were being complied with.

CONCLUSIONS AND FINDINGS

Internal Controls

Internal controls were generally adequate and functioning properly. However, the following weaknesses were noted:

- **Critical production files were not protected from unauthorized access. Additionally, data could be updated, changed or deleted, thus bypassing the controls built into the original computer programs that produce the data.**
- **There were no formalized contingency plans in place.**

Compliance with Policies and Procedures

We found that, for the most part, the system was operating in accordance with government policies and procedures. However, we felt the following merited attention:

- **Deficiencies were evident with regard to the recording of maternity leaves, employee absences, and the obtaining of medical certificates.**
- **A minimum of $822,000 in taxable benefits was not reported in 1985 for approximately 450 government employees who were provided with government-owned accommodation at reduced rents.**

COMMENTARY

Background

In the 1986 fiscal year the Ontario Public Service employed approximately 82,000 employees, of which 67,000 were classified and the subject of our review.

IPPEBS is operated and maintained by the Ministry of Government Services (MGS). The Employee Benefits and Data Services Branch (EBDS) processes payments, stores all necessary employee data and produces appropriate payroll reports using information provided by user ministries and agencies.

In addition to ensuring that controls over their payroll operations are adequate, ministries' responsibilities with respect to IPPEBS include the preparation of inputs to the system, reconciliations, authorizations and cost distributions.

Internal Controls

Critical Production Files Accessible

The computer centre has installed the IBM security protection product called Resource Access Control Facility (RACF). If used properly, RACF can control the type of computer data accessed, as well as what the person can do with the data he/she accesses.

EBDS identified 68 files as being the most critical to the IPPEB system. These 68 files were tested for the extent of protection against unauthorized access.

We found that 44 of the files tested were unprotected. The unprotected files included the direct pay deposit tapes for the banks and the pay history data for all employees.

Inadequate Control over Immediate Access Privileges

Under IPPEBS data can be directly altered, updated, or deleted by an authorized user from a computer terminal. When this feature, known as Immediate Access, is used, all internal computer program controls such as edit routines are bypassed.

We examined the controls surrounding the use of Immediate Access and found them to be inadequate.

Selected EBDS staff use Immediate Access to correct missing, incomplete, or erroneous data in the IPPEBS database that cannot be corrected by the regular procedures (via input forms). This data includes such information as pension credit dates, tax deductions and benefit starting dates. Immediate Access requests should originate from the user ministries and require EBDS management approval.

We found that only 40 per cent of the requests that were acted on satisfied these requirements. Furthermore, there was no way of ensuring that only the requested updates were made to IPPEBS. Although all updates were logged, there was no independent comparison of the updates against the requests.

We recommended that control be established to ensure:

- that only user initiated and approved changes are made through Immediate Access; and
- that all Immediate Access updates be reviewed by a person other than the one who performed the update.

Inadequate Contingency Planning

Contingency plans detail the actions that must be taken to permit computer processing to continue should the prime processing facility become inoperative for any length of time. Such a plan would include the use of backup data and programs, alternative processing facilities, forms and stationery, operating instructions, alternative communications, assigned responsibilities, etc.

The Systems Branch of MGS recently completed an Information Technology Security Report, which addressed the contingency planning weaknesses of the entire Ministry. **This report identified the need for a contingency plan for IPPEBS, and the need for improvements in computer file security.**

EBDS management indicated that although there was no formal contingency plan in place for IPPEBS, employees could be paid by instructing the various banks to repeat the previous payroll and if necessary, repeating this procedure for a second payroll. This would buy four to six weeks of time, thus allowing the data centre to recover, and the financial loss due to over/underpayments would be minimal.

However, since only 60 per cent of employees are currently receiving pay via direct deposit, in our opinion this form of contingency planning is inadequate. No provision has been made for paying the other 40 per cent of employees who receive their salary by cheque.

EBDS Management stated that further work on the development of contingency plans is currently being coordinated on a Ministry level by the Systems Branch.

Compliance with Policies and Procedures

Non-Adjustment of Credit Dates

We examined a representative sample of regular and extended leave situations. **Over 10 per cent of these cases did not have their pension credit dates adjusted. Accordingly, these periods of leave would have incorrectly been counted as pensionable service and may result in excess pension payments in the future.**

Attendance Not Recorded Correctly

Absences

With 4 per cent of the employees tested, we found that absences shown on time sheets and attendance reports were not recorded on the Central Attendance Recording System output reports (principally the IPPEBS year-to-date credit usage report). In some cases this resulted in overstatements of vacation and other credits. In other cases, no deductions were made from employees' pay when credits had been exhausted.

Medical Certificates

In 10 per cent of the instances examined involving absences of six or more consecutive days due to illness, the absences were not supported by certificates from a legally qualified medical practitioner or other person appointed by the deputy minister.

Taxable Benefits Not Disclosed

At the ministries of Natural Resources and the Solicitor General, when comparing the charges paid by employees for government provided accommodation through payroll deductions with the appraised rental value (i.e. the fair market value as provided by MGS) of the properties concerned, we noted substantial differences. In many cases, the accommodation charges were 50 per cent below the appraised rental values. According to the Income Tax Act, these differences should be included as taxable benefits to the employees for income tax purposes. We noted that these benefits were not being shown on the employees' T4 Supplementary Statement of Remuneration Paid.

As a result, we estimated that in 1985 alone, a minimum of $822,000 in taxable benefits was not disclosed: $445,000 by the Ministry of Natural Resources and $377,000 by the Ministry of the Solicitor General. These two ministries accounted for approximately 80 per cent of all government provided employee accommodation.

In exceptional circumstances some employees may qualify for exemption under the Income Tax Act. However, there were no instances noted where a TD4 form "Declaration of Exemption-Employment at Special Work Site" which is required to obtain an exemption, had been filed with Revenue Canada.

RESPONSE

The Secretary of the Management Board of Cabinet responded to our comments and recommendations on October 10, 1986.

General

"I am pleased to note that you have found that internal controls were adequate and the system, for the most part, was operating in accordance with government policies and procedures. Given the magnitude of the IPPEBS system, I am encouraged by this overall positive audit report.

"There are, as the report noted, areas where improvements could be made and which merit government-wide attention. In order that all ministries could benefit from your observations, your audit report was sent in its entirety to all Deputy Ministers. Ministries were asked to review the report and to ensure that any deficiencies are promptly addressed and appropriate controls put in place."

Compliance with Policies and Procedures

Taxable Benefits Not Disclosed

"With regard to your finding on Taxable Benefits, whatever action is necessary to ensure compliance with The Income Tax Act will be taken. Since the applicable section [6 (1)(a)] of The Income Tax Act is very broadly worded, careful study, including consultation with Revenue Canada, will be needed to determine exactly how the section of that Act applies to government-provided employee accommodation. I hope to have this matter concluded by the end of this fiscal year."

The Deputy Minister of the Ministry of Government Services responded to our comments and recommendations on October 17,1986.

Internal Controls

Critical Production Files Accessible

"A newly installed release (version 1.6) of Resource Access Control Facility (RACF) is being reviewed which will allow a generic profile of generation data group (GDG) files and will be completed by the calendar year end."

Inadequate Control over Immediate Access Privileges

"Data Services Section of the Branch is currently developing procedures to formalize the 'immediate access' process. In accordance with your recommendations, particular attention is being given to documenting separation of duties and post audit. Implementation is scheduled for December 1,1986."

Inadequate Contingency Planning

"An IPPEBS contingency plan is documented, but has not been reviewed since 1981. We agree that this situation should be addressed, and as previously stated, the Branch will be conducting further work on this plan in conjunction with an ongoing initiative being coordinated at the ministry level by MGS Systems Branch.

"With regard to your observation that employees paid by cheque (40%) had no provision for backup, this is covered by the General Services Branch plan for off-site storage and alternate production of cheques."

3.4
Observations Regarding Land Management

The Province owns 96 of the 107 million hectares of land in Ontario. The ministries of Government Services, Natural Resources and the Ontario Land Corporation are the major government landowners. The Ministry of Government Services is responsible, on behalf of the government, for buying land, selling surplus land, and managing lands awaiting disposal or conversion.

SUMMARY

SCOPE AND OBJECTIVES

During our audit, we examined the procedures and controls in place at the ministries of Government Services, Natural Resources and the Ontario Land Corporation.

Our objectives were to assess whether:

- privately owned land was acquired only as necessary and that economy was considered in site selection and timing of the purchase;
- land was managed economically; and
- land no longer required by ministries was declared surplus and was disposed of economically and according to government guidelines.

CONCLUSIONS AND FINDINGS

For the most part, the acquisition, management and disposal of government lands was undertaken with due regard for economy and in accordance with government guidelines. However, we noted some areas needing improvement, the most significant relating to the Ministry of Government Services.

Specifically:

- **Contrary to Cabinet's instructions, some properties disposed of under the Accelerated Land Disposal Program (ALDP) were sold below the established minimum price.**
- **Lands originally purchased for a sports centre have been retained for more than 7 years after plans for the centre were cancelled. The government's cost of retaining these lands exceeds $500,000 per year.**
- **The Ministry has managed a facility consisting of approximately 11,500 hectares since it was closed in 1975. For the past 5 years, net costs incurred on this property have amounted to at least $1 million, with an additional $700,000 a year in land holding costs. At the time of our audit there were no plans for the property.**
- **The system in place to control real estate files in the Ministry's file room was inadequate, thus increasing the risk of lost files.**

COMMENTARY

Background

The Province of Ontario is comprised of 107 million hectares (43.3 million acres) of land as follows:

	Million Hectares
Provincial Crown land (unpatented)	93.0
Privately-owned (patented)	11.0
Patented land owned by provincial ministries and agencies	3.0
	107.0

Land in Ontario is called Crown land and remains unpatented until it has been surveyed and registered. With the transference of its legal title, the land is considered patented. The two ministries and one agency we reviewed are responsible for a total of 95.8 million hectares, of which 2.8 million hectares are patented. Our review was confined to the patented land.

Ministry of Government Services

The Ministry of Government Services provided the following realty services for the provincial government during the 1985 fiscal year:

Types of Transaction	($ millions)
210 purchases	18.4
119 sales	24.7
1,710 leases managed	6.1

Land Sales below Established Minimum Price

The Accelerated Land Disposal Program (ALDP) was set up in the 1984 provincial budget to acquire $25 million in revenue "from the sale or lease of Government land holdings in urban and commercial areas".

On June 27, 1984 Cabinet notified the Ministry of Government Services (MGS) that land disposed of under this program was not to be sold below a reserve price reflecting appraised market values. The Cabinet further specified that subject to Management Board review and approval, the then current selling practices could be modified as deemed appropriate. Such selling practices called for property to be sold first to ministries, secondly to local municipal, county or regional governments and thirdly to the public.

On October 26, 1984 a Real Property Advisory Committee (RPAC), consisting of members from the public and private sectors, was established to advise MGS on disposals under this Program.

During the 1985 fiscal year MGS publicly sold five properties under this program for a total of $18.7 million. Management Board approval was obtained permitting these to be sold directly to the public by tender without following the normal sequence of offering.

With respect to the sale of one of these properties, we noted the following matters of interest:

- In January 1985 MGS put out public tenders for the sale of a 0.318 hectare property on Holly Street in the City of Toronto. Appraisals for this property, completed from August to November 1984, ranged from $2.2 million to $5.7 million. Based on these appraisals the Real Property Advisory Committee determined that this *"property offers considerable development potential"* and set *"a reserve price of $4 - 4.5 million"*.
- Twelve bids were received ranging from $71,000 to $3 million. Because the amount offered was significantly below the reserve price, MGS staff recommended that the high bid of $3 million be rejected. However, MGS management decided to negotiate with the highest bidder on the condition that if they failed to increase the bid to the reserve price the property would be marketed through a real estate broker. Negotiations were successful in increasing the bidder's price to $3.3 million.
- **While this amount was significantly below the reserve price, the Real Property Advisory Committee recommended on February 15, 1985 that the $3.3 million offer be accepted.** We were advised by Ministry staff that the offer was accepted because both the Ministry and the RPAC felt the bidding process clearly indicated that the value of the property was much less than the originally established reserve price.
- An MGS internal memo indicated that, on February 20, 1985, the day before the offer to purchase was accepted, the Ministry had been told there was a possibility the property was going to be resold to another company. The purchaser had assured the Ministry that his objective was to develop the land and that he had no intention of reselling the property.
- On February 22, 1985 MGS consented to the assignment of the sale agreement by the original purchaser (Company A) to Company B. On March 11, 1985 Company B informed MGS that it would be taking title to the property as Company C.
- On March 20, 1985 Company A signed a declaration stating that it assigned its interest in the purchase and sale agreement to Company B *"subject to payment of certain monies"* by Company B *"as a deposit with the balance due and payable on the completion of the transaction"*.
- **While the amount received by the government for this property was $3.3 million, the affidavit filed for land transfer tax purposes indicated that the total amount paid for the property by Company C was $4.5 million. We were unable to obtain any additional information with respect to this sale.**
- In conducting a corporate search of Company A, we found that its Certificate of Incorporation had been cancelled on June 21, 1982. The company was dissolved for default in complying with the Corporations Tax Act.

While the differences were somewhat less, two of the other properties under ALDP were also sold below the reserve price, with the approval of the RPAC:

Reserve Price	Sale Price
$	$
10,155,000	10,030,000
3,465,000	3,408,000

Retention of Surplus Lands

Background

The Parkway Belt Planning Area was established in 1973, covering approximately 21,000 hectares of land located between Hamilton and Markham. The Parkway Belt was established to provide a land reserve for future facilities and a system of open space and recreational facilities for nearby communities.

The government subsequently purchased 6,600 hectares of land at a total cost of approximately $320 million. Of this, approximately 740 hectares were sold for $34 million, leaving 5,860 hectares at a net cost of $286 million.

Proposed Sports Training Centre

Between 1975 and 1977 approximately 250 hectares of land were purchased for a sports training centre at a total cost of $6.8 million. This facility was to include a sports pavilion, equestrian centre, shooting ranges, sports fields, tennis courts, residences and a sports science centre at a total estimated construction cost in 1977 of $37.5 million.

In 1978, after $1.5 million had been spent for architects' fees, preliminary site services and supervision, the government cancelled the construction program for the centre. Since then approximately 40 hectares have been sold for a total of $1.8 million. As an interim measure, of the remaining 210 hectares, 142 have been leased, with total annual revenue of about $22,000 as follows:

- 109 hectares to two golf courses since January 1983
- 27 hectares to residential tenants since 1977
- 6 hectares to a riding academy since October 1984

The other 68 hectares have not been leased due to topography. At the time of our review, there were no plans to develop or dispose of the 210 hectare site.

We questioned the rationale for retaining this land for more than 7 years after the original plans were cancelled. If the $5 million invested in this land were realized, it could generate approximately $500,000 per year at current interest rates.

Management at MGS advised us that this issue would be addressed as part of the five year review of the Parkway Belt Planning Area, which was underway during our review.

Underutilized Lands

In July 1974 Cabinet ordered that the Burwash Correctional Centre, utilizing about 11,700 hectares of patented land, be phased out and closed before March 31, 1975. The Ministry of Government Services was instructed to maintain the property for five years in case reactivation became necessary.

Since the closing of the Centre, MGS has leased out parts of the property and sold approximately 74 hectares to the federal government for $1.8 million. Various studies were undertaken to determine future uses for the remaining property. These included:

- a maximum and minimum security prison with a cattle operation and selected recreational uses designed to permit the management of wildlife;
- a model development community;
- converting the land to support a beef cow, calf enterprise instead of cash crops or feed grain crops;
- building a polytechnic school complex, an 18 hole golf course or a regional cemetery.

At the time of our review, none of these projects had been initiated and there were no plans for the property. In 1978, MGS estimated the total value of the property, including buildings, to be $12.9 million. The value of the land alone was estimated to be approximately $7 million.

From 1980 to September 30, 1985 the Ministry of Government Services incurred heating, maintenance and repair costs on the property totalling approximately $1.3 million. During the past ten years, recoveries from leases, provision of services to the federal government, etc., amounted to only approximately $305,000. Assuming that the land could be sold for $7 million based on current interest rates the Province could earn $700,000 a year by disposing of this land.

We were told that an interministerial committee has been established *"to review and evaluate all proposals for the facility and provide reports and recommendations to senior management"*.

Other Matter

The Ministry's central file room contains the Ministry's real estate files. These include purchase, sale, lease and other management files. Control over the files is maintained using a "sign-out" card indicating the date, the name of person taking the file and the name of the file. Two clerks are responsible for access control, file retrieval and file maintenance.

The system for controlling these files was inadequate, increasing the risk of files being lost. During our review, we noted that of the 700 files signed out of the central file room, more than 20 per cent (160 files) had been signed out for longer than two years. Of these, over 50 files had been signed out to employees who have not been employed by the Ministry for over two years.

RESPONSE

The Secretary of the Management Board of Cabinet who coordinated the responses to our findings and recommendations, sent us the following reply on September 16, 1986.

Ministry of Government Services

Land Sales below Established Minimum Price

Re: 40 Holly Street

"The Auditor's Report notes that the R.P.A.C. had originally recommended a reserve bid of $4.0 to $4.5 million for this property but an offer of $3.3 million was accepted on the recommendation of M.G.S. staff and the R.P.A.C.

"The following factors should be noted with respect to this particular transaction:

- The following appraisals, utilized by staff to recommend the original reserve bid, used historical data of comparable sales up to six months previous:

  ... August 24, 1984 — $5.5 - $5.6 million
  ... November 1, 1984 — $3.35 - $4.1 million
  ... October 5, 1984 — $2.2 - $2.5 million

- The reserve bid was agreed to by the R.P.A.C. on November 24, 1984
- The R.P.A.C. recommended the highest bidder be requested to increase their offer on February 15, 1985
- The R.P.A.C. recommended that the amended offer of $3.3 million be accepted
- Staff recommended acceptance of the $3.3 million amended offer on February 22, 1985."

"The time-frame between the historical data included in the appraisals on which the original reserve bid was established and the final negotiations and acceptance, was approximately six months.

"The new reserve price was in fact supported by the analysis of the latter of two of the three appraisals, and was effectively adjusted to reflect market value as of the end of January 1985. The adjustment was fully approved by the R.P.A.C.

"Staff and the R.P.A.C., on the basis of market reaction to the tender, the all cash terms, and the time span involved, considered that the $3.3 million represented the current market value and recommended acceptance of the offer accordingly.

"Reserve prices on the Accelerated Land Properties were to be reflective of market value based on appraisal analysis and the expertise provided by the R.P.A.C. members.

"It was and is our view that if the R.P.A.C. established a reserve price, then the R.P.A.C. could change the reserve price, if circumstances warranted. It is our contention that the circumstances did so warrant and the action taken in accordance with and not contrary to Cabinet direction.

"Regarding the dollar amount entered on the Land Transfer Tax Affidavit of the deed, Realty Services Branch staff brought this matter to the attention of the Ministry Legal Branch as well as Counsel with the Ministry of the Attorney General.

"The purchaser was responsible for preparing the Land Transfer Tax Affidavit and Ministry staff were advised that no action could be taken.

"The $4.5 million figure entered on the Land Transfer Tax Affidavit may have been developed between associated companies and the Ministry has no way of knowing how and for what purpose this figure was developed. The figure may not be a record of a true arms-length transaction but rather reflect a paper increase in value for intercorporate financing purposes."

Re: Other Land Sales

"As noted, the final sale prices were extremely close to the earlier reserve price. Again, due to the time frame involved relative to the appraisals and the market response, the R.P.A.C. recommended that the highest bids offered be accepted, as they were indicative of the market value (tested in one case by listing brokers and the other by the tender process).

"In summary, these issues underline the fact that market value is established by the market place. Appraisals and listing prices are pre-marketing estimates and must be adjusted by the reality of the market place, assuming of course the marketing is open, competitive and public."

Retention of Surplus Lands

Proposed Sports Training Centre

"As noted, the Bronte Sports Complex property was purchased between 1975 and 1977. While the capital project was cancelled in 1979, the Cabinet, in approving the Parkway Belt West Plan in 1978, designated the majority of the acquired lands as Public Open Space.

"The policies of the Plan require that these lands remain in public ownership and are to be used for active and passive recreation. As indicated in the Auditor's Report, part of the property is being used for recreational purposes in accordance with the Plan."

"The Ministry of Municipal Affairs is currently reviewing the Parkway Belt West Plan."

Underutilized Lands

"It should be noted that $12.9 million value mentioned in the Auditor's Report was based on an appraisal of value of the buildings and land used as a prison facility. If used for that purpose, the buildings would contribute their full value to the property. However, to a purchaser intending other use, the buildings may contribute very little to, or may in fact reduce the value of the property.

"The Report suggests that in addition to the $1.2 million net cash flow to the Government over 10 years ($120,000 per year for the entire site), the government has incurred a further holding cost of $700,000 per year. This figure is apparently based on the assumption that the property could have been sold ten years ago for $7 million and the $7 million could have been invested at 10% for the entire period. As no offer of $7 million cash has been forthcoming, one may question whether a notional cost of $700,000 per annum is a valid assumption.

"As noted by the Auditor an interministerial committee is reviewing and evaluating proposals for use of the facility."

Other Matter

"The Auditor's Report indicated that a number of files have been signed out for a lengthy period of time.

"Realty Services Branch file room contains approximately 11,400 active files. These files are contained in a locked room, attended by three file clerks. Control over files is maintained by using a sign-out card indicating the date and name of person removing the files.

"A complete file audit review has now been completed, all files have been accounted for and a new system of file control has been introduced, as recommended by the Auditor."

3.5
Poor Controls over Movable Assets

The ministries of Agriculture and Food, Attorney General, Community and Social Services, Correctional Services, Environment, Health, Natural Resources, Solicitor General, Transportation and Communications, and the Management Board of Cabinet, accounted for approximately 65 per cent of the $89.2 million of movable assets purchased in the 1985 fiscal year.

SUMMARY

SCOPE AND OBJECTIVES

In conducting our examination of movable assets in the aforementioned ministries, our objective was to assess, on a government-wide basis, the adequacy of controls in place to account for and safeguard movable assets (excluding vehicles).

CONCLUSIONS AND FINDINGS

We concluded that for the most part, the controls in place to account for and safeguard movable assets were inadequate and ineffective. The following were some of our most significant findings:

- **The control of movable assets was generally not deemed a high priority function in the ministries covered.**
- **The Ministry of the Solicitor General did not maintain inventory records for most of its movable assets.**
- **In our sample of approximately 1,300 recorded assets, 230 assets could not be physically located.**
- **While eight ministries performed physical inventory counts of their movable assets at least every four years, as required, the ministries of the Solicitor General and the Environment did not.**
- **Seven ministries did not perform required annual inventory counts of their attractive movable assets.**
- **At the Ministry of the Attorney General 1,200 assets valued at over $330,000 could not be accounted for.**
- **Some ministries failed to follow up on inventory counts not submitted by field offices nor were they investigating discrepancies arising from physical inventory counts and taking appropriate action on a timely basis.**
- **Records at the Ministry of Natural Resources indicated that 3,500 assets costing approximately $1.7 million, could not be located during its 1985 inventory count.**
- **Of the 225 assets selected from inventory listings for various ministers' offices, 60 items including cameras, colour televisions, overhead projectors and typewriters could not be located.**

COMMENTARY

Background

The Ontario Manual of Administration defines movable assets as "items of tangible, movable property either in use or held for later use" excluding "land, buildings, fixtures, livestock, cash and receivables". The Province of Ontario has a significant investment in movable assets dispersed throughout the province. Each individual ministry is required to establish systems to provide for the proper control, security and loan of movable assets. These systems are commensurate with good business practices in any large sized corporation.

The recorded movable asset inventories of the ten ministries we reviewed totalled over 450,000 items with a value in excess of $250 million.

Accountability

The Ontario Manual of Administration outlines the procedures to be followed to ensure adequate security over movable assets. These procedures include the delegation of responsibility to ensure accountability for the proper security of assets and periodic stocktaking in order to verify the existence of the assets.

In most cases we found that the asset control function was of low priority with ministry management although they were ultimately accountable for these assets.

Inadequate Inventory Records

Ministries are required to establish perpetual inventory records to control movable assets. We noted that inventory records generally did not contain all the required information. Unit cost, purchase date and an indication of whether the information was actual or estimated were among the more common omissions from the records.

Furthermore, at the Ministry of the Solicitor General we found that inventory records generally were not maintained for movable assets except for some technical and laboratory equipment. We commented on this situation in a previous audit report, issued to the Ministry on August 19, 1982.

We did note that new procedures have been developed and that the Ministry is implementing a new computerized movable asset control system which should be operating by December, 1986. While the Ministry plans to count all existing movable assets to create the new movable asset records, the Ministry will still be unable to determine the completeness of this inventory, since only items which are physically observed will be recorded on the new system. The new system will not alert the Ministry to any items that may be missing.

From our tests of over 1,300 inventory records at the ministries we reviewed, staff were unable to locate or verify the existence of approximately 230 assets. Some of these assets we could not locate were electric typewriters, colour televisions, 35 mm cameras, calculators, an outboard motor, pocket dictaphones and a freezer.

In addition, we selected 950 assets on hand to determine if they were properly reflected as such in the inventory records. We noted that in 150 instances they were not. Among the assets not recorded in the inventory records were word processing units, tape recorders, cameras, personal computers, a video camera, typewriters, binoculars, televisions and calculators.

The ministries of the Environment, Transportation and Communications, Agriculture and Food and Community and Social Services accounted for over 140 of the 230 assets listed in the inventory records that we could not physically verify, and over 100 of the 150 assets that we could not trace from various locations to the inventory records.

In view of our findings, we concluded that the inventory records were unreliable and controls in place to account for movable assets were weak.

No Stocktaking

To verify the existence of all movable assets recorded in the inventory records, physical inventories are required at least once every four years and annually for those assets that are attractive for private use or resale. The procedures followed should therefore ensure that inventory counts are accurate and discrepancies are properly investigated and appropriate action taken.

We noted the following deficiencies with respect to physical inventory counts:

- **Eight of the ministries performed a physical inventory of their movable assets at least every four years. However, inventory counts were not being done at the ministries of the Solicitor General and the Environment.**
- The Ministry of Community and Social Services requested all its branches and locations to perform a physical inventory in March and June 1985. At the time of our audit (April 1986), 153 of the 194 cost centres had returned their inventory while 41 centres representing $16 million (59 per cent) of the Ministry's inventory had not. Management is now in the process of following up on the missing inventories.
- At the Ministry of the Attorney General all inventory counts were to be completed by October, 1985. At the time of our review (February 1986), 29 of the 375 cost centres had not submitted their physical inventories. This represented $2.1 million (10 per cent) of the Ministry's total inventory. We were informed that the matter of inventories not returned was being followed up with the appropriate division heads.

- **Seven ministries did not perform an annual inventory count of attractive movable assets.** Ministries normally performed this count at the same time as the regular inventory was done (i.e. every four years).
- **Regarding the last three physical inventory counts conducted by the Ministry of the Attorney General, we noted that after following up on discrepancies, the Ministry still could not locate a total of 1,200 assets valued at over $330,000. Included were attractive assets such as court recording machines (178 valued at $83,000).**

While the number of items which could not be located was not as significant, the control over attractive assets at the Ministry of Transportation and Communications (MTC) could also be improved. In its 1985 physical inventory count of attractive assets, MTC noted that the following items in its records could not be located: 26 dictators and transcribers, 18 cameras, 17 walkie talkies, 13 binoculars, 10 tape recorders and 8 slide projectors.

Stocktaking records should be certified by a senior ministry official having delegated authority in writing from the deputy minister. However, most inventory reports we reviewed did not contain any evidence of involvement of senior staff. The majority were certified by administrative staff of branches and institutions or were not certified at all.

Discrepancies

The results of physical counts, such as shortages and other discrepancies, provide important management information and an indication of the effectiveness of controls.

For proper management control, all discrepancies arising from the physical inventory should be investigated, responsibility determined and appropriate action taken. While there were some discrepancies at all ministries visited, the following were the most significant:

- **At the Ministry of Natural Resources, assets not located during the 1985 inventory count were transferred into an "Unaccounted For" account. At the time of our review (May 1986), this account contained 3,500 assets valued at $1.7 million.**

  We were informed by management that since the Ministry had moved from a room number to an open space concept, the location information on the inventory records was inaccurate. This may have accounted for a majority of the discrepancies. We were informed that the Ministry would be following up on these discrepancies to clear this account.
- In May, 1984 the Ministry's Ontario Centre for Remote Sensing reported 194 assets unaccounted for on its inventory list. While 100 of these assets were written off by the Ministry, we could find no written authorizations with regard to the write-offs. Some of the assets written off were: 4 projectors, 19 lenses, 3 cameras and 18 stereoscopes (optical lenses for aerial photography).
- In the Ministry's Timber Branch in Sudbury, the November, 1985 physical inventory showed that there were 62 discrepancies between the inventory records and the count sheets. At the time of our audit (May 1986) only 6 of these discrepancies had been cleared.
- In the London Area Office of the Ministry of Community and Social Services, the results of the 1984 inventory revealed 248 discrepancies between the inventory records and the count sheets. Some items were not on the inventory, while others on the inventory could not be located.

  Up to the date of our review (May 1986), no follow-up had been done by the area office nor was senior management informed of these discrepancies.

Ineffective Control of Assets in Ministers' Offices

On June 25, 1985 the Ministry of Government Services issued a memorandum dealing with Cabinet appointments and the relocation process. It stated that "present Ministers, Parliamentary Assistants and their staff should relocate only their personal and political files and other personal property. All furnishings, paintings/artwork, filing cabinets and equipment, i.e. word processors, computers, should be retained in the Minister's office area as they are the property of the ministry".

Since the control of assets in ministers' offices has been the subject of some debate in the Legislature, we extended our review to specifically cover this area.

When physical inventory counts at ministers' offices were conducted, ministry staff were unable to locate many items. In our test counts of over 225 assets listed in inventory records for ministers' offices, 60 items could not be located. These included desk lamps, typewriters, dictators, colour televisions, 35 mm cameras and accessories, overhead projectors and transcribers.

RESPONSE

The Secretary of the Management Board of Cabinet responded to our comments and recommendations on October 9, 1986. His reply also included responses from individual deputy ministers.

(from the Secretary of the Management Board of Cabinet):

Accountability

"I share the concern expressed in your conclusion that the control of movable assets has generally not been a high priority in the ministries which you covered. In this regard, I attach a copy of a letter which I have sent to all deputy ministers.

"In my letter I refer to the recently issued Directive and Guideline on the management of supplies, equipment and services. The Directive requires ministries to manage movable assets efficiently, economically and effectively. Each Deputy's responsibility for ensuring that this requirement is met is made clear in the Directive. I will be requesting a status report from all ministries before the end of this fiscal year.

"The Management Board Secretariat is sponsoring training sessions for ministry personnel in all the Management Board Directives. Management of movable assets will be given special emphasis in this training program.

"In addition, the Secretariat works with ministry internal auditors to produce audit guides as another means of assisting ministries in the implementation of and compliance with the Board's Directives. Work is now underway on the audit guide for the Directive on the management of supplies, equipment and services."

(from the Ministry of Agriculture and Food):

Accountability

"Senior Management of the Ministry of Agriculture and Food were aware that further internal controls over movable assets were necessary. To rectify this situation, management has been working on the development of a new asset management system since early in 1985. The existing system was not designed to cope with the multiple locations in which the ministry exists, nor with the decentralized purchasing practices of the ministry.

"The new asset management system will rectify the concerns and finding of the Provincial Auditor as well as provide both senior management and field managers with better controls over movable assets. It is anticipated that the new assets system will be ready by April 1, 1987 after which a physical inventory of all movable assets will be necessary."

Inadequate Inventory Records

"Assets move among the multiple offices in the Ministry both within and between branches as functions change. The present asset management system does not provide an adequate audit trail to trace asset movement. The new asset management system will enable management to trace a specific asset wherever it moves in the Ministry."

Ineffective Control in Ministers' Offices

"These ... items were held in a separate suspense account pending final approval for write off. These have now been approved for write off and are deleted from the asset system."

(from the Ministry of the Attorney General):

Accountability

"The Ministry operates on the basis that each Office Manager is responsible and accountable for the assets on charge to his/her Office. This responsibility is not specifically delegated or referenced in position specifications but rather is taken as a general responsibility of the position. The Ministry will emphasize this responsibility during the upcoming estimates process. Managers will be required to account for losses."

No Stocktaking

"The practice in the Ministry is to conduct physical verification of Assets every two years. The latest exercise was done in 1985 and involved approximately 375 offices. Our procedures call for a complete physical verification of those assets on record with a report to be submitted covering all variances between actual assets on hand and the book record provided.

"Starting with the 1986 physical verification, reports will be made available to Branch Directors for those assets reported by his / her office administrators as 'not located'. It is expected that the Branch Directors will follow-up with their offices to resolve and properly document these discrepancies.

"We have maintained a follow-up for those offices that did not complete the 1985 verification and there are still 9 offices that have not complied with the requirement for a physical verification. We are now following up with these branches and the verification is expected to be completed soon."

(from the Ministry of Community and Social Services):

Accountability

"The Ministry is currently in the process of developing new procedures and monitoring techniques which will encourage management to comply with control requirements already in place. A more pro-active approach by the Inventory Co-ordination Unit will be undertaken."

Inadequate Inventory Records

"Controls, already in place, have been redeveloped to ensure better accountability of assets. The Inventory Co-ordination Unit will monitor and follow-up with all responsibility centres to ensure adherence to the system. Controls, such as monitoring purchase orders to ensure that assets have been added to the system before the purchase order is filed, more frequent field visits and reviews of area files will ensure the timely, accurate recording of new assets, transfers and deletion of assets which will lead to a more accurate information system."

No Stocktaking

"We have received commitments from all outstanding locations, noted in the report, that the full verifications will be completed by September 30,1986, with the exception of one location (a larger facility which is committed for completion by October 31, 1986). Of the 41 locations that had not completed the verification at the time of the audit all but 10 have now completed the task. A follow-up schedule is in place to ensure that commitment dates are met. Schedules and internal procedures have been developed to ensure that all verifications are completed in a timely manner.

"At the time of the audit the Inventory Co-ordination Unit was in the process of setting up a schedule for the annual verification of attractive movable assets. All required scheduling, systems changes and procedures are now developed and a verification is underway."

Discrepancies

"London Area Office has completely re-structured its inventory control system with the assistance of the Inventory Co-ordination Unit. All input has been processed and is up-to-date. The Inventory Co-ordination Unit will continue to monitor the inventory at London and all locations and thus identify problem areas at an early stage."

Ineffective Control of Assets in Ministers' Offices

"Of the five items presented to the Inventory Co-ordination Unit which the auditors could not locate, all but one typewriter was accounted for. An incident report has been filed and investigative action included checking previous ministers' offices to ensure that the typewriter had not been transferred with them.

"The Inventory Co-ordination Unit has taken the responsibility for the control of the Minister's inventory and will perform frequent checks of the inventory, as well as the responsibility for tagging the assets and completing all applicable documentation.

"There will be compliance with the Ministry of Government Services memorandum of June 25, 1985 dealing with Cabinet appointments and the relocation process."

(from the Ministry of Environment):

General

"... in general, we do not have any major disagreements with the Auditor's findings and that this Ministry has already, or is in the process of, taking steps to implement procedures or systems which will remove all the deficiencies as identified in the Audit Report."

Accountability

"Each program branch will be asked to appoint an assets coordinator who will be responsible for the control of the assets, organization of a physical count, and liaison with the Administrative Services Office for update of inventory records."

Inadequate Inventory Records

"This Ministry has just redesigned a new movable assets system that will provide all the information as required by the Ontario Manual of Administration, Section 35-8-5 (e.g., unit cost, year of purchase, etc.).

"Provisions have been made to enhance the accountability of movable assets. A new form has been designed which will require the approval and certification of program directors for any additions, transfers or disposals of movable asset items. These forms will be submitted to Administrative Services Office for update of the inventory records.

"As indicated ... any new additions and movement of the asset items will be reported to the Administrative Services Office in order to update the inventory records. In addition, a periodic physical count of the items will be carried out to identify any discrepancies between the records and the physical assets."

Ineffective Control of Assets in Ministers' Offices

"The new procedures will allow for liaison between the Administrative Services Office and the asset coordinators of the minister's office. Any movement of the movable assets will be timely and properly recorded and reported to the Administrative Services Office in order to update the inventory records."

(from the Ministry of Natural Resources):

Accountability

"We agree that one of the fundamental problems with the asset control function is the low priority that it has traditionally been given. The Ministry recognized this some time ago and in October 1984, senior management directed that an operational audit be conducted which would assess the adequacy of the movable assets management system and from this, that recommendations for improvement be developed. The report, which contained nineteen recommendations, was received March 19, 1985. Several of the recommendations focus on accountability and will lead to increased accountability at all levels. A task force is now in the process of implementing the recommendations of the report. Target date for completion is March 31, 1987."

Discrepancies

re: "Unaccounted for" Account

"The name of the account examined by the auditors is misleading. It was in fact, a working computer file of inventory items for which certain elements of pertinent information were either incomplete or incorrect. Examples of the type of information are: custodian codes, location codes and incorrect or duplicated unique numbers. The purpose of the file is to flag these items for corrective action, not identify unlocated items although it may also contain some. The value of items on this report totals $1.7 million.

"There are items that actually have been identified as not located and there is a report specifically for this purpose. The value of the items on this report totals $237,366.

"Corrective action is to be taken on the records identified on the file of incomplete information. This project will begin November 1, 1986. The Ministry will follow-up on the items identified as not located and clear the account. Target date for completion of both initiatives is March 31, 1987."

re: Ontario Centre For Remote Sensing

"The audit report correctly states that in May 1984, the Ontario Centre for Remote Sensing reported that it could not locate 194 assets. However, none of these assets has been written off nor has there been a move to do so. Efforts were made to locate them and by the November 1985 inventory report, only 52 items remained outstanding. These efforts are continuing and it is expected that virtually all of the items will be located before or during the next physical inventory. Target date for reconciliation of the outstanding items is March 31, 1987."

re: Timber Branch in Sudbury

"A physical inventory which includes the assets of this branch will be completed by October 31, 1986. The discrepancies identified by the auditors will be resolved during the stocktaking and the reconciliation process which follows it. Target date for completion of the reconciliation is March 31, 1987."

(from the Ministry of the Solicitor General):

General

"As noted in the Audit Report, the Ministry has not been maintaining an adequate movable asset inventory program. The Ministry has however, moved significantly forward in correcting this situation by beginning development of a complete computerized system. It is anticipated that the new system will be fully functional by fiscal 86/87 year end."

Accountability

"The asset control function in this Ministry now has a high priority with Ministry Management. Appropriate delegation of responsibility will be maintained through Ministry policies and police orders."

(from the Ministry of Transportation and Communications):

General

"The observations in the report tend to relate to the overall system and are being addressed as follows: —

1. The existing MTC movable assets file system (29,000 items valued at $72,000,000.00) is on the mainframe and is cumbersome to use and in particular, update. In order to increase efficiency and reduce operating costs, this system is presently being converted to a micro-computer application which is expected to be operational in December 1986.
2. In December 1985, the procedures were changed to include certification of inventory counts.

"In conjunction with the revised computer system and implementation in December 1986, it is intended to: —

a) review and update the Assets Control Manual to ensure inclusion of all policy and audit requirements;

b) review and update directions issued when requesting an inventory to ensure they include specific reference to all requirements in accordance with the Manual of Administration policy. Prepare and include a format incorporating a discrepancy summary for certification by the Regional or Branch Director;

c) review all office systems and files to ensure all aspects of the policy are properly followed. Advise staff of specific requirements such as files;

d) establish a management reporting system to allow for regular monitoring of all outstanding inventory certificates and discrepancy resolutions."

"Sound asset control involves an enormous number of people in this Ministry. Our most recent Ministry Directive on this matter is dated June 1985. A memo for my signature is currently being prepared in a further effort to improve the situation."

3.6

Special Assignment on Algonquin College of Applied Arts and Technology, Ministry of Colleges and Universities

Background

As covered in section 3.6 of our 1985 Report the Provincial Auditor, subsequent to a request from the Standing Committee on Public Accounts, prepared two reports on Algonquin College.

The first report focused on the irregularities in the administration of the Financial Management Program, the Ministry overfunding of the College by $2.375 million, and the fraud by a College employee involving the Training in Business and Industry program (TIBI). The second report dealt with a general review of the historical management of the College, and the financial and administrative systems in place.

After reviewing the two reports, the Committee called before it (in February 1985) senior officials from the Ministry of Colleges and Universities and from Algonquin College. During the hearings Committee members expressed serious concerns about the College's poor record of administration. The Committee requested the Provincial Auditor to monitor and ultimately report on the College's progress in implementing new operational guidelines and procedures.

A progress report was issued by the Provincial Auditor to the Committee in 1985. Follow-up audit procedures were completed and a report was issued to the Committee in July, 1986.

Our 1986 Report

Our review concluded that major improvements to the College's systems and procedures had been made or were in progress. We were generally satisfied with the actions taken by the College.

Additionally, other initiatives and commitments made by the Ministry of Colleges and Universities will be followed up in our fiscal 1987 audit of the Ministry. Any matters of significance arising from this audit will be reported in our Annual Report to the Legislature.

3.7

Inspection Audit, Georgian College of Applied Arts and Technology, Ministry of Colleges and Universities

With a staff of 900, Georgian College offers programs to 4,000 full-time and 20,000 part-time students at 6 locations in Barrie and the surrounding area. In the 1985 fiscal year, the College's operating expenditures totalled $30.6 million, and $29.7 million was received in grants and other revenues.

SUMMARY

SCOPE AND OBJECTIVES

As part of our audit, we assessed the financial controls relating to the College's payroll and personnel systems.

CONCLUSION AND FINDINGS

We found that the related financial controls were generally satisfactory. However, we questioned the following:

- **There was no policy requiring part-time positions to be advertised. Vacant positions were filled at the discretion of the chairmen/deans of departments.**
- **The recommended rescission of certain provisions in the employment contract of a senior official was not acted upon by the College.**
- **The same official was granted a 20 year interest free loan of $20,000 and, in 1985, was reimbursed for house and personal automobile insurance expenses totalling $1,800.**
- **Travel allowances paid to six senior officials during the 1985 fiscal year exceeded the College's standard reimbursement by more than $10,000.**

COMMENTARY

Background

During the 1985 fiscal year, $21.7 million was spent on salaries and benefits for the College's 900 employees, 350 of which worked part-time.

Compensation packages for unionized staff are prescribed by the collective agreements with respective union bargaining units.

Terms and conditions of employment, and salaries of administrative personnel throughout the college system, including presidents, are set by the Minister of Colleges and Universities, on the advice of the Council of Regents.

Hiring and Performance Appraisals

We observed that formal written performance appraisals of full-time teaching staff by their superiors were required only every three years. There was no requirement that any formal written evaluations be done of part-time teaching staff by their superiors.

Full-time teaching staff were hired through a well-defined process using posting of the positions and selection committees. **However, part-time positions were filled at the discretion of the chairmen/deans of the departments. There was no set policy that positions be advertised.** As a result, there was no assurance that all interested and qualified candidates would be considered for part-time positions.

We noted that 20 full-time staff also taught part-time evening courses. Three of these full-time staff taught two part-time courses per week. The College does not have a system for approving part-time teaching undertaken by full-time faculty or assessing the effect of the part-time work on full-time job performance.

We recommended that formal written performance appraisals for both full-time and part-time teaching staff be prepared annually. A defined process for hiring part-time employees should also be established to ensure all interested and qualified candidates are considered. Lastly, we felt that written approval from the supervisors of full-time employees wishing to teach a part-time course would allow the College to monitor and control the impact of additional work load on the performance of the full-time employees in their regular duties.

Payments to a Senior Official

In accordance with the Council of Regents' guidelines, a senior official has been paid at the maximum salary level allowed for the position and has received non cash compensation in the range of 23 to 28 per cent of his annual salary. In 1982 the College's Board of Governors granted this official additional annual payment provisions, which amounted to $11,000 in 1985. **The Chairman of the Council of Regents recommended that these be removed from the employment contract. This recommendation, however, was not followed.**

The same official was also granted a 20 year interest free loan of $20,000 to buy a house, repayable in 1998, and, in 1985, reimbursed $1,800 for insurance on house and personal cars.

We were advised that the Council of Regents was not aware of the interest free loan and the personal insurance payments.

It concerned us that the recommendation of the Chairman of the Council of Regents was not followed. We also felt that the granting of the interest free loan and the payment of personal insurance expenses was not appropriate for a publicly funded organization.

We recommended that the senior official's contract payment provisions be reviewed by the Ministry in consultation with the Board of Governors and Council of Regents.

Travel Allowance

A monthly non-accountable car allowance ranging from $185-$350 plus 11¢ per kilometre was given to each of 6 senior officials. The standard College rate for travel is 27.5¢ per kilometre with no monthly car allowance. **If this policy had been followed in reimbursing the travel reported by these officials, the College would have saved $10,000.**

RESPONSE

The Deputy Minister responded to our comments and recommendations on September 11, 1986.

Hiring and Performance Appraisals

Re: Full-time employees

"Performance appraisals are completed every four months for probationary teaching masters. For those past probation, our policy requires evaluation be completed once every three years.

"Management is of the opinion that this policy is providing them with satisfactory information."

Re: Part-time employees

"Part-time teaching staff are evaluated in either a formative or summative mode. At the present time the performance evaluation records are retained at the divisional level.

"The College is presently studing a Human Resource system that would render possible the compilation of these evaluations in a centralized personnel file."

Re: defined process for hiring part-time employees

"This process will be researched and studied by our personnel department. The College will take into consideration a cost/benefit analysis of this process."

Re: Supervisors approval for full-time employees teaching a part-time course

"This requirement is in place for all academic employees pursuant to their collective agreement and for all administrative employees pursuant to the 'Terms and Conditions for Employment for Administrative Staff'. For the remaining group, support staff, the requirement would have to be negotiated during the next round of collective bargaining. The proposed Human Resources system will keep track of the written approvals and allow better monitoring of work load."

Payments to a Senior Official

"The senior official's employment contract has been reviewed and amended."

Travel Allowance

"It is the opinion of the Management of the College that in some cases, reimbursement of travel based on actual kilometres is not the most economical and efficient method of compensation. Senior officials are expected and required to commute frequently between campuses. As well, the College has assigned and re-assigned a number of senior college administrators to other campus locations which involves daily travel to and from their original locations. On these occasions, commuting kilometrage is not reimbursed. The actual College policy regarding car allowance is not in excess of a reasonable amount and is beneficial and satisfactory both to the College and to the employees involved.

"Finally, the overall savings to the College was in excess of $5,000, not a cost of $10,000 as stated."

CHAPTER 4 - COMMENTS ON MINISTRY AUDITS

4.1
Introductory Comments

The comments contained in this segment of the Report pertain to audit observations and recommendations resulting from ongoing ministry audits. The audits on which the comments are based were completed since the date of our last Report and are listed in Exhibit 5.

4.2
Improvements Needed in Drainage Project Procedures, Ministry of Agriculture and Food

During the 1986 fiscal year, $9.4 million was spent for municipal outlet drainage and tile drainage grants (Vote 2103, Item 5).

SUMMARY

SCOPE AND OBJECTIVES

As part of our audit, we assessed the adequacy of procedures in place by the Ministry to ensure grants provided for drainage projects were spent economically, particularly with respect to the tendering for engineering and construction services.

CONCLUSIONS AND FINDINGS

In general, we were satisfied that the construction of drainage projects was being properly tendered by municipalities. However, a competitive selection process was not being used in the hiring of consulting engineers for drainage projects.

We also noted that the Ministry was not requesting cost-benefit analyses on proposed drainage projects, despite the findings of a recent federal government study that stated it was unlikely future benefits would equal the cost of the drains.

COMMENTARY

Background

The Tile Drainage Act Program is designed to encourage the proper drainage of excess water off productive farmland, thus improving farm yields.

The Drainage Act provides grants towards the cost of constructing, improving, repairing or maintaining municipal drainage works on land. Farmers who wish to have a municipal drain constructed under the grant program must file a petition for such drainage with the local municipality. The signing farmers must own at least 60 per cent of the total hectarage, or represent at least 50 per cent of the landowners in the area requiring drainage.

Upon completion of the drainage works the municipal council submits an application for a grant to the Ministry. The grant is based on a portion of the drainage costs assessed against agricultural lands, for the most part calculated at 33 1/3 per cent. Municipalities fund the remaining costs, which they recover through special drainage assessments on the affected farms.

Tendering of Contracting Services

Municipalities generally award construction contracts through a tendering process.

Overall, we were satisfied with the process being used to award such contracts.

Local municipalities utilize the services of consulting engineering firms to design proposed drainage works. We examined all 156 drainage projects undertaken by ten townships over the last three years.

We noted that in all cases the selection of the consulting engineering service was made without a competitive tendering process. For instance:

- **In five townships, representing 87 of the 156 projects reviewed, services of only one consulting engineering firm were purchased. Engineering fees in these townships amounted to $450,000, or 18 per cent of the total project costs of $2.5 million.**
- **The other five townships each used from two to five consulting engineering firms for the 69 projects undertaken. Their engineering fees amounted to $380,000 or 13.5 per cent of total project costs of $2.8 million.**

As illustrated, even in the absence of competitive tendering, engineering fees, as a percentage of total project costs, were significantly lower in townships which used several engineering firms. We further noted that there were other qualified consulting engineering firms located in four of the five townships that used one engineering firm for all projects.

In our opinion, greater economies would have been achieved if the Ministry had required competitive selection of engineers as a condition of grant payment.

Lack of Cost-Benefit Statements on Projects

The Drainage Act states that a municipal council or the Minister may require a benefit-cost statement to be prepared for proposed drainage works. A cost-benefit analysis is a comparison of the expected value of crop yield increases due to better drained farmland with the projected construction costs of the drain.

We noted that such cost-benefit statements were not being requested by the Ministry prior to project funding.

We made a similar observation in our 1979 Annual Report. At that time, the Ministry responded that: *"benefit cost statements have not been requested previously and we do not think that the cost in terms of both time and manpower, could be justified for all 800 drainage works undertaken each year. We do agree that in some cases they would be desirable and are developing criteria with the intent of requesting these statements where deemed appropriate."*

At the time of our audit, no such criteria had yet been developed.

We continue to believe that grant applications should be supported by cost-benefit statements where applicable, to ensure that only projects are funded where the benefits exceed the costs involved.

As an illustration of the potential cost savings from cost-benefit statements, we noted an example of a drain in one township where an appeal had been brought before the Ontario Drainage Tribunal. The Tribunal considered the estimated $1.8 million cost too great. Believing that savings of $500,000 to $700,000 could be achieved, the Tribunal ordered a downsizing of the project. It concluded that a corresponding downward adjustment in engineering and administration fees would reduce the total cost by approximately 50 per cent.

It should be pointed out that only a small percentage of drainage projects are appealed to the Tribunal.

A March 1985 report issued by Environment Canada titled *"The Eastern Ontario Subsidiary Agreement Drain Programs' Impacts on the Land Resource — An Initial Evaluation"* concluded on the benefit issue as follows: *"It was found that a significant number of drains subsidized by the program are unlikely to generate future benefits equal to the cost of the drains. Indeed, it appears likely that this would be the case for the majority of the drains."*

The Ministry is currently using data from a number of projects to develop a methodology for determining cost-benefit statement models to ensure that benefits justify costs incurred in the construction of a drain.

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 17, 1986.

Tendering of Contracting Services

"It is the Ministry opinion that tendering for engineering should not be required on the vast majority of projects. Records on 530 projects for which grants were paid in the 1985-86 fiscal year were analyzed for the engineering costs. The engineers were paid less than $1,000 for 12 percent of the projects and less than $4,000 for 51 percent of them. Sixty eight percent were less than $6,000. The average engineer's fee was $6,300.

"Tenders for projects would cost a minimum of $500 (one day of the principal engineer's time) and would range upward from there depending on how tight the municipality defined the terms of reference. A requirement for tendering would be expected to increase the cost of the service by a minimum 10 percent for more than half of the projects. In large projects the municipalities may tender if they feel there is a need. If their engineering costs get out of line, and they feel they are excessive, the council can request a review of the account by the Tribunal."

Lack of Cost-Benefit Statement on Projects

"Staff are continuously trying to influence the engineers to prepare reports that will provide cost effective solutions to the drainage problems. However, there are still those projects which are envisioned to yield only marginal benefits.

"There are areas in the province where drainage benefits may be marginal. It is not so much the area of the province that has to be considered, but the actual lands to be gained from the work, and the magnitude of the required project. Furthermore, it is the cost of the recommended solution, as opposed to the cost of a possible more economical solution, to the majority of the problems that may render a project unreasonable from a financial perspective.

"The auditor indicates that no grant should be paid unless the benefits derived from the project exceed the costs involved. Our belief is that the grant is to reduce the local costs incurred in order to meet the societal demand that the drain be properly designed and constructed in such a manner that injury does not result to other owners. As such, there may be cases where the *direct* benefits do not exceed the direct costs.

"The safeguards built into the appeal process of the Act should ensure that such projects are few.

"As the auditor indicates, the Ministry is developing documents to be used to stimulate discussion among the petitioners about the costs and benefits of a project. It is the Ministry's intention to use these documents to further increase the possibility of financially sound projects, through informing the landowners of the financial factors they need to consider when supporting a project."

re: Environment Canada Report

"With respect to the Working Paper from Environment Canada the Minister sent an open letter to the Hon. Thomas McMillan and the Hon. John Wise on September 19, 1985 setting out our response to the report. Following are relevant excerpts from that response.

"'I am writing to express a deep concern about a paper released by the Land Use Policy and Research Branch of the Department of Environment. The report is Working Paper Number 40, titled The Eastern Ontario Subsidiary Agreement Drainage Program: Impacts on the Land Resource — An Initial Evaluation. The report is very negative towards our land drainage program and appears to be based to a great extent on false and erroneous information.'

"'The cost-benefit analysis ignored all of the positive reports of drain benefit from both Canada and the northern United States and drew data from the few negative reports available. Other studies show some positive and some negative projects with the majority showing returns exceeding the costs. For this reason I intend to continue provincial support for drainage works.'"

4.3
Inadequate Inspection Procedures, Homes for the Aged, Ministry of Community and Social Services

In its program for the homes for the aged, the Ministry provides most of the funding and regulates the operations of senior citizen homes run by municipalities and charitable institutions.

In the 1985 fiscal year the program's expenditures totalled $214 million (municipal homes $176 million and charitable homes $38 million).

SUMMARY

SCOPE AND OBJECTIVES

We assessd the adequacy of the inspection procedures for the homes for the aged program, to ensure that the homes were complying with standards of care, safety and financial requirements prescribed by legislation.

CONCLUSIONS AND FINDINGS

Inspection Procedures

We concluded that inspection procedures were not adequate to ensure that homes were complying with standards of care, safety and financial requirements. Specifically:

- **The frequency and scope of inspection activities were not specified.**
- **Actual inspections were infrequent.**
- **Results of inspections and follow up of deficiencies noted were poorly documented.**

Other Matter

Significant Variations in Operating Costs

We noted that the actual costs of providing care varied widely among different types of homes as well as among homes in the same category. For example, in charitable homes, residential care costs ranged from $10 to $62 per day per resident.

COMMENTARY

Background

To administer its programs, including the homes for the aged program, the Ministry has a decentralized organization structure. All Ministry programs are delivered through 14 area offices. There are also several support branches in the corporate office in Toronto which develop policies and procedures pertaining to delivery of the programs.

Approximately 28,000 senior citizens (or 3 per cent of the Ontario population over 64 years) reside on a temporary or long-term basis in 184 homes for the aged. They are provided with meals, medical care, and a range of social and recreational activities.

Homes are operated by municipalities and charitable institutions under the Homes for the Aged and Rest Homes Act and the Charitable Institutions Act respectively. Municipalities run 90 of the homes, with the balance being operated by charitable institutions. The day-to-day affairs of the homes are managed by their respective boards.

Municipal homes provide 8,000 residential care beds and 10,200 extended care beds while charitable homes provide 7,000 residential care beds and 2,800 extended care beds. Residential care beds are for those residents who require less than 1½ hours of nursing care per day, whereas extended care beds are for those residents who require 1½ hours or more of nursing, medical and personal care a day.

Funding Arrangements

If able, residents classified under residential care are required to pay the full cost of their care. If unable to pay the full amount, the shortfall is shared in accordance with the Acts as follows:

Municipal Homes	Ministry 70 per cent; municipality 30 per cent
Charitable Homes	Ministry 80 per cent up to a predetermined ceiling ($31 per day); the balance by the charitable institution.

If able, extended care residents are required to pay a basic rate of $19 per day. If unable to pay the full amount, the difference is shared in a 70:30 ratio between the Ministry and municipality and in a 80:20 ratio between the Ministry and charitable institution.

For extended care costs incurred over and above the $19, the Ministry provides the homes with 100 per cent of the additional funding up to predetermined ceilings of $42 per day for municipal homes and $44 per day for charitable homes. Further, for municipal homes, if costs exceed the $42, any excess is shared between the Ministry and the municipality in a 70:30 ratio. But, in the case of charitable homes, costs exceeding the $44 are not shared by the Ministry and must be funded entirely by the charitable institution.

The Ministry recognizes that these funding constraints may cause financial strain on many charitable homes which may not be able to raise additional funds from other sources. Accordingly, the Ministry provides them with special ad hoc grants as deemed necessary. Although statistics on charitable homes facing financial difficulties were not readily available, the number of these homes receiving such grants and their amounts have been increasing over the past three years as follows:

	1983-84	1984-85	1985-86
Number of Homes	7	9	10
Grants paid (millions)	$4.5	$5.5	$7.0

In addition to providing operating grants, the Ministry provides limited discretionary grants (usually 50 per cent) to certain homes for capital construction projects. In the 1985 fiscal year such capital grants amounted to $9 million.

Inspection Procedures

General

Notwithstanding the fact that the various individual boards of homes are responsible for their day-to-day management, the Ministry has the responsibility to ensure that the homes comply with various requirements of their respective statutes by means of inspections.

The Charitable Institutions Act states that a provincial supervisor shall inspect each charitable institution for the purpose of determining compliance with the Act and the Regulations. The Homes for the Aged and Rest Homes Act states that homes shall be open at all reasonable times for inspection by a provincial supervisor or other appointed person(s). Some of the key provisions of these Acts and regulations pertain to maintaining adequate standards in fire safety, hygiene, diet, medical services and the physical condition of the building. They also specify various financial measures such as maintenance of separate bank accounts for moneys held in trust by homes on behalf of the residents.

In order to discharge its responsibilities, each area office has a certain number of program supervisors who are designated as the provincial supervisors by the Ministry. They serve as the prime contact between the Ministry and the homes. It is their job to inspect the homes on a regular basis to ensure that they adhere to the requirements of both standards of care and financial measures, to provide any advice that the homes may request and to keep senior management of the Ministry informed as to the affairs of the individual homes. Many of these supervisors are also involved in the delivery of up to 16 other programs of the Ministry.

In addition, there are three nursing consultants, two dieticians, one medical specialist and one adjuvant (i.e. activity and therapy coordinator) at the corporate office in Toronto, who review various homes either independently or at the request of the program supervisors. However, further follow-up on the recommendations of these consultants is the responsibility of the program supervisors. Therefore, effective Ministry administration of the homes for the aged program to a large extent depends on the work of the program supervisors.

In summary, ministry methods for monitoring homes for the aged essentially consist of inspections by program supervisors and reviews by Ministry health care consultants.

Inadequate Inspection Procedures

To improve the inspection process, a 1983 draft report prepared by staff of the corporate office and area offices suggested that program supervisors be required to inspect the homes using checklists provided for that purpose. **However, up to the time of our audit, no formal guidelines had been issued to establish the extent and frequency of inspections.** We were advised by senior Ministry officials that guidelines had not been issued because of a study being carried out on the accountability relationships between the Ministry and its agencies receiving grants (see section of report — Accountability of the Ministry).

During our audit of five area offices responsible for 83 charitable and municipal homes, we interviewed ten program supervisors and examined 41 files.

During our interviews, many program supervisors stated that they did not consider themselves inspectors, but rather liaison persons between the homes and the Ministry.

They offered two major reasons as explanations. One reason was that they were required to monitor up to 16 adult social service programs. The homes for the aged program was only one of them. Limited time was therefore available for inspecting homes. Under the circumstances, they were satisfied that, due to the good rapport which had been nurtured between the homes and themselves, all serious matters which occurred would be brought to their attention by the home administrators. Moreover, in addition to conducting inspections, they were required to spend time monitoring the financial affairs of the homes. Financial affairs included such things as helping homes with preparation of budgets, monitoring of actual financial results, participating in union discussions and ensuring that residents who are able, pay their share of the costs. We were unable to determine how much time was actually spent monitoring homes since such records were not maintained.

Secondly, several program supervisors felt that they were not qualified to perform specialized reviews, such as fire, nursing and dietary, which they believed were best performed by the consultants at the corporate office and external organizations such as the Fire Marshal's Office. Our discussions with staff in the support branches in the corporate office indicated that with the assistance of available questionnaires and checklists, the program supervisors could carry out effective inspections and, where applicable, ensure that external bodies had carried out the necessary inspections. The use of such questionnaires and checklists had been tested and found to be helpful by some program supervisors. The program supervisors, however, indicated that due to the time pressures related to all of their responsibilities, the future use of the questionnaires and checklists was unlikely.

In light of time pressures, lack of specialized qualifications, and their perceived role as liaison persons, the program supervisors had not followed systematic inspection routines. Furthermore, inspection or other monitoring activities undertaken had seldom been adequately documented. The extent of documentation was left to the supervisors' discretion and normally consisted only of details of unusual incidents, but lacked any evidence of the extent of the monitoring activities.

This was borne out by our review of the 41 files which indicated no documentation of:

- reviews of the dietary area in 39 files;
- fire inspections performed in 31 files;
- independent nursing reviews or level of care reviews in 25 files;
- annual medical reports in 17 files;
- annual building maintenance reports in 13 files.

Reviews by Ministry Health Care Consultants

Given the small number of Ministry health care consultants previously indicated, we were not surprised that the number of specialized reviews had been very limited. **The statistics maintained in the Ministry indicated that in the 32 months ended November 30, 1985, only 44 per cent of homes had had a nursing or level of care review completed by a consultant.** Statistics prior to this period were not available.

By comparison, the Ministry of Health, which regulates the nursing homes in the Province, requires detailed inspections to be carried out at least once per year by nursing, environmental health, fire safety and dietary inspectors. Nursing homes are privately owned, and provide only extended care services to their residents. Although nursing homes may require more rigorous reviews, we felt systematic and regular reviews by consultants in the homes for the aged are needed to ensure that appropriate standards of care are maintained.

The value of regular inspections has also been recognized by one municipality and one area office visited. During the time of our audit, the municipality had seven specialists in different disciplines performing formal inspections as well as making informal visits on a monthly basis to the homes in the municipality. These inspectors were not involved in any other program and therefore could devote all their time to the homes for the aged.

In one area office of the Ministry, an operational support unit has been developed solely for the purpose of reviewing homes for the aged. Should the necessary budgetary approval be obtained, teams of consultants, including nursing, dietician, adjuvants and miscellaneous staff will visit the homes at least once per year for an overall assessment. Detailed checklists will be prepared and recommendations and follow-up procedures will be part of the overall approach of the teams.

Reviews by consultants are excellent tools for identifying deficiencies in homes. For example, nursing consultants' reports, available in the five area offices visited, revealed that several homes were understaffed according to staffing guidelines prepared by the Ministry and that a number of instances of non-compliance with legislation, such as lack of supervision of residents and provision of special diets, had occurred. **However, there was no evidence on the files to indicate that the program supervisors had followed up on these incidents to ensure that the homes concerned had taken timely action to prevent their recurrence.**

Accountability of the Ministry

The Ministry's thinking on the subject of systematic inspection routines has changed from that reflected in a 1983 draft report, which recommended that Ministry staff be required to conduct inspections using a standardized checklist. In a recently conducted Ministry study dated May 1986 on the accountability relationship with agencies receiving funding, organizations will be held specifically responsible for meeting certain mutually agreed upon expectations in the areas of finance, management and services. The way in which these expectations will be monitored by the Ministry will be negotiated with the boards of directors of the organizations.

Senior officials indicated to us that instead of systematic inspections by Ministry staff, another monitoring option was being seriously considered. This option consisted of a form of self-monitoring by the boards of the homes, supplemented by Ministry informal contacts and periodic reviews by health care consultants.

We acknowledged that inspections alone will not remedy all deficiencies at the homes. However, we felt that periodic systematic inspections are necessary to ensure that legislative requirements are met.

We recommended that:

- The Ministry develop a systematic inspection process for both program supervisors and consultants to inspect and report on all homes over a reasonable period of time. The follow-up of deficiencies observed in these reports should be carried out on a timely basis and the results adequately documented. The frequency and the nature of the inspections may, however, vary according to the Ministry's experience with particular homes.
- All other monitoring activities carried out by the program supervisors be documented to provide a history of their involvement, problems encountered and suggested solutions provided. This record would be beneficial in determining the nature and frequency of inspections deemed necessary for individual homes.
- To assist management in making operational and resource allocation decisions about matters such as the level of staffing and the frequency of inspections, it would be helpful if the approximate amount of time spent on the major activities of each program by program supervisors was reported.

Trust Accounts

Residents may have their income and assets managed by a trustee of their choice. This is frequently the home in which they reside. According to legislation, where a resident has money and/or income while in a home, he or she may request the administrator to deposit it in various types of trust accounts, and may make withdrawals at any time, provided appropriate written receipts are issued. A report prepared by the Operational Evaluation and Audit Branch of the Ministry indicated that homes for the aged managed approximately $60 million in trust moneys belonging to residents.

According to Ministry guidelines, trust moneys should be invested to earn the maximum interest without risk. Interest earned on these trust moneys must first be allocated to a personal use trust account, up to $112 per month, provided that other sources of income are less than this amount. Any additional interest may be used for maintenance and other costs of the resident with the remaining balance also placed in a trust account as directed by the resident. The responsibility for the trust accounts rests with the home administrator. Trusts are audited annually by auditors of the homes and open for inspection by the program supervisor.

To get an indication as to whether the trust account guidelines were being adhered to, four of the area offices visited by us sent questionnaires to various homes. Responses received indicated that some homes were not complying with the guidelines. For example, in a number of homes residents' trust accounts were in non-interest bearing bank accounts. In another home, $30,000 of interest was earned, but not credited to the residents' trust accounts. This amount was kept by the home in lieu of administrative charges.

We recommended that the program supervisors more closely monitor the administration of trust accounts during the inspection process to ensure that homes follow the guidelines and other statutory requirements.

Other Matter

Significant Variations in Operating Costs

Various statutes require all homes to provide a certain consistent standard level of care. However, the operating costs of providing such care vary widely among the homes. This is illustrated in the following table prepared from data obtained at the Ministry:

	Daily Actual Cost per Resident					
	Municipal			Charitable		
	High	Low	Average	High	Low	Average
Residential Care	64	19	34	62	10	29
Extended Care	103	47	66	116	38	57

By way of contrast, the per diem ceilings funded by the Ministry are:

Residential Care		$31
Extended Care	- Municipal	$42
	- Charitable	$44

As illustrated, the costs in the municipal homes are significantly higher than those in the charitable homes for providing what should be the same standard of care. There is also a wide fluctuation of costs within the municipal homes themselves as well as within the charitable homes.

We were informed that such variations are caused by several factors, such as level of care provided by the homes, physical health of the residents (extremely frail residents require more care), geographic location, manpower and other costs.

We noted that Ministry funding policies, although in accordance with legislation, do not take into consideration the actual funding needs of a specific home. We were advised by senior Ministry officials that in 1984 a limited study was carried out involving six homes to determine the specific causes of higher or lower than average costs. However, at the time of our audit, there had been no formal, comprehensive survey to determine the funding needs of individual homes.

In the interest of equity and maintenance of an appropriate consistent standard of care, it is important to identify the various factors that influence costs at each home and to relate them to the need for Ministry funding. This is particularly important in the municipal homes, where the funding is open ended, with the Ministry paying 70 per cent of any costs in excess of the established ceilings.
For instance, a municipality, knowing the Ministry funds all cost overruns, may well decide to provide a premium level of care for its residents, while other municipalities may be more restrictive in services provided.

Two areas exist where the Ministry, in conjunction with the individual homes, may be able to exercise a degree of control on expenditures:

- The residents should be appropriately classified as to residential care, or extended care since extended care residents, if able, are required to pay a significantly lower per diem rate ($19) than residential care residents ($31). The appropriate classification is determined by individual family physicians rather than by formal geriatric assessments. Such lack of formal geriatric assessment allows for variation of standards which determine the classification.
- Staff, resources and unique circumstances of homes should be reviewed to ensure care provided is reasonably consistent.

RESPONSE

The Deputy Minister responded to our comments and recommendations on September 26, 1986.

General

"My response reflects this Ministry's changing direction with regard to accountability with transfer payment agencies. Our approach which we will be moving to institute in Homes for the Aged is outlined in the document, Ministry Accountability Framework, July 1986. The document establishes the areas of agency accountability to the Ministry. The Ministry is also extending the services approach to Homes for the Aged to clearly identify and link services provided with funding."

Inspection Procedures

Inadequate Inspection Procedures

"As regards the area of inspection procedures in our view, responsibility and accountability for the day to day management of homes, client care and outcomes, program quality and effectiveness rests with the Boards of Management and Boards of Directors. This is the general policy direction that we are taking. I personally do not believe that a direct parallel should be drawn between private nursing homes and municipal and charitable homes for the aged. Private homes are licensed while charitable and municipal homes are not. The report implies that because the Ministry is not inspecting homes in the same manner as is the case with private nursing homes some municipalities are filling the void, as it were, by carrying out their own inspections. In fact, such municipalities are carrying out their duty as a Home's Committee of Management as expected under statute.

"The area of inspection is an important one and one where it is fair to say there are differences in approach particularly as we are in a transition period between current legislation, its interpretation and intended future directions. Therefore, in the interim every effort will be made to ensure that both Boards and administrators are aware of this direction and that our staff and expert resources continue to be made available to carry out our responsibilities."

Trust Accounts

"With respect to trust accounts a schedule will be developed to ensure that Ministry staff draw to the attention of administrators and to Boards that trust accounts must meet all appropriate requirements."

Other Matter

Significant Variations in Operating Costs

"... it is important to keep in mind that the needs of residents are being met in our Homes at present. The need to rationalize the whole system of long-term care has been recognized by the Hon. Ron Van Horne and will be part of his development of long-range strategies for Ontario's health and social service system for senior citizens."

4.4

Improvements Needed in Controls over Lottery Licences, Lotteries Branch, Ministry of Consumer and Commercial Relations

The Lotteries Branch, in cooperation with municipalities, licenses and controls all non-government lotteries operated by charitable organizations, churches and private companies. The Branch also sets the standards and rules for conducting games of chance in Ontario.

In the 1986 fiscal year, licensed events generated gross receipts in excess of $450 million, of which bingo accounted for approximately $300 million.

Branch expenditures for the 1986 fiscal year totalled $264,000 (Vote 1204, Item 3), and revenue from licence fees amounted to $647,000.

SUMMARY

SCOPE AND OBJECTIVE

We assessed the management controls in place in the Lotteries Branch to minimize fraudulent and unethical practices by licensees in conducting lotteries.

CONCLUSIONS AND FINDINGS

We concluded that the Branch lacked sufficient resources and that its procedures were inadequate to minimize fraudulent and unethical practices.
Specifically we noted that:

- **The Branch had conducted only limited field visits to licensed organizations to verify the accuracy of the financial reports submitted.**
- **No procedures existed to verify that moneys raised for charitable or religious purposes were used for the purpose for which they were intended.**
- **Controls over cash receipts reporting by bingo operators needed strengthening.**
- **Only a small percentage of provincially licensed bingo events met the requirement that at least 20 per cent of the proceeds be donated for charitable purposes.**

COMMENTARY

Background

The primary objective of the Branch is to prevent fraudulent and unethical practices by licensees in conducting a lottery. It is also responsible for ensuring that a fair portion of the revenues generated is used for charitable or religious purposes. In the 1986 fiscal year, the Branch had a staff of six.

In conjunction with municipalities, the Branch licenses over 100,000 events annually. These events generate gross receipts in excess of $450 million, of which, after payment of prizes and other expenses, approximately $90 million is designated for charitable purposes.

Field Examinations of Lottery Operations Needed

Municipalities have the authority by an order in council to issue licences for local lotteries. Municipalities charge a fee for issuing the licences and retain all fees collected. These municipal licences are restricted to bingo lotteries with maximum prizes of $3,500 and raffles and other gaming events where the prizes do not exceed $5,000. Licences for lotteries with larger prizes are issued directly by the Branch.

We found that the Branch had conducted only limited inspections of records maintained by the municipal offices and of charitable organizations receiving licences from the Branch or a municipality.

Municipalities forward copies of licences they have issued to the Branch. However, the Branch lacked sufficient resources to review them. Although the Branch had logged the blank licences issued to each municipality, it had not investigated reasons for licences not returned or issued. Accordingly, licences could have been issued and events held without the knowledge of the Branch.

The Branch conducts desk reviews of financial information submitted by provincially licensed organizations. These reports, however, did not provide the Branch with information as to the fairness of the game nor the accuracy of the reported figures. Financial information on lotteries operated under municipal licences, was not routinely forwarded to the Branch.

We felt that the introduction of a random inspection program of lottery organizations by the Ministry would increase the level of compliance to the rules and standards by the entire lottery industry.

A small field staff could verify the accuracy of information submitted by the organizations in their lottery reports and confirm that the rules for conducting a lottery are being adhered to. Periodic visits to municipal licensing offices would verify the adequacy of their procedures as well as provide administrative guidance to the municipality.

In 1985 the Lotteries Branch created an independent task force to review the lottery industry, including an examination of lottery organizations. The results of these reviews are expected to be reported to the Branch, along with any recommendations, in 1986.

Monitoring of Charitable Proceeds from Lotteries Required

Under the terms and conditions of a lottery licence the organization conducting the lottery is required to state the purposes for which the proceeds are to be used. At the completion of each event the licensee submits a lottery report indicating that the proceeds are to be used for charitable or religious purposes.

We noted that neither the Lotteries Branch nor municipalities had performed regular follow-ups to ensure that funds were turned over to a charity. Furthermore, there had been no follow-up on charitable organizations to ensure that funds raised were actually used for charitable or religious purposes.

Since the primary objective in licensing lotteries is to raise money for charitable or religious purposes, we felt the Branch should have a system to periodically monitor the disposition of the proceeds.

The task force reviewing the operations of the lottery industry is expected to address this issue and include recommendations in its report to the Branch.

Poor Controls over Bingo Events

Of the over $450 million spent annually by the general public on gaming events, bingo accounts for approximately $300 million.

Our review of the Branch records revealed that reporting requirements over cash collected for bingo events needed to be strengthened.

Under the current system of reporting, the licensed organization in charge of the bingo event is required to report on the number of bingo cards sold, the price per card, the total receipts collected and the prizes awarded. The system, in its present form, makes it difficult to verify the number of bingo cards sold and the receipts generated and is solely dependent upon the integrity of the bingo operators. We were informed by the Branch that the Ministry's task force examining the lottery industry has included this area as part of its review.

Deficiencies in Licensing of Bingo Events

The financial criteria in issuing a bingo licence to an organization was specified by an order in council issued in 1982. A charitable group must generate amounts not less than 20 per cent of gross revenues for charitable purposes. Further, the group's administrative expenses must not exceed 15 per cent of gross revenues. However, the Branch director has the authority to vary these percentage limits in issuing bingo licences.

Our examination of 50 organizations licensed in 1984-85 indicated that approximately 85 per cent failed to meet the conditions set out in the order in council. In most instances, the group or organization continued to be licensed. The explanation and circumstances for waiving the stated terms and conditions, as well as the expected rate of return for each group, was not documented in the organization's file.

The Branch director and his staff indicated that a review had been made of each group prior to the waiving of the stated terms and conditions.

In our opinion, the issuance of a waiver to an organization is similar to setting a new standard for the group. This should be documented in the organization's file, along with the reasons for issuing the waiver. The explanation should indicate the percentage of proceeds the Branch expects the organization to earn in conducting the fund raising event.

Furthermore, we observed that the Branch did not keep statistics on the number of organizations receiving waivers from conditions specified in the order in council. We felt such statistics should be maintained. This information would measure the performance in generating moneys for charitable purposes, as well as providing the Branch with a mechanism to monitor the reasonableness of the current guidelines.

Revenue Collection and Recording

Controls relating to the collection and recording of lottery licensing fee revenue were found to be satisfactory. Minor observations concerning backlogs and guarantees were brought to the attention of the appropriate Branch personnel.

RESPONSE

We received the following reply from the Deputy Minister on September 23,1986.

General Comments

"The findings of the Provincial Auditor are accurate in that they reflected past operating conditions at the Branch. However, with the Task Force Report under current review, a reorganization of Branch resources almost complete and the introduction of automation to Branch functions, it is felt that all of the concerns expressed by the auditors can be positively addressed over the next fiscal period.

"Since 1980, Branch workload has increased by approximately 50% (6,500 to 13,000 events licensed annually). Staff has been approved by Management Board, increasing complement from six to fifteen. A five-person unit is being created to handle inspection and compliance functions and co-ordinate interactions with provincial enforcement authorities. This new unit will also increase provincial support to municipal licensing officers who issue approximately 40,000 licences annually.

"The Branch is appreciative of the constructive criticism offered by the Provincial Auditor and looks forward to demonstrating to the Audit staff its new direction in future audits."

Field Examinations of Lottery Operations Needed

"The Branch has now begun to make periodic visits to licenced organizations to verify reports. Although these visits are still limited in number, a Branch reorganization, which is currently in process, will increase the frequency of these visits."

Monitoring of Charitable Proceeds from Lotteries Required

"The Branch, by increasing its presence in the field, has started to investigate the use of funds raised by groups operating charitable games to ensure the monies are used as intended. This activity will also increase under the new organization."

Poor Controls over Bingo Events

"Proposed new reporting forms with explicit guidelines are in the process of being developed. This undertaking will be completed by January, 1987 and will assist in the monitoring of cash receipts at bingos."

Deficiencies in Licensing of Bingo Events

"The Branch, recognizing that market conditions do not always permit a group to achieve the 20% profit guideline, has embarked on an intensive program to ensure that the 15% expenditure guidelines are adhered to with a view to ensuring maximum profitability for charitable groups."

4.5

Compliance with Legislation Not Monitored, Credit Unions, Ministry of Financial Institutions

The Credit Unions and Co-operatives Services Branch of the Ministry is responsible for insuring that the over 1,600 credit unions and co-operatives in Ontario operate in accordance with the Credit Unions and Caisses Populaires Act and the Co-operative Corporations Act.

Branch expenditures for the 1986 fiscal year totalled $1.1 million (Vote 1402, Item 1). To enhance its monitoring and inspection role, the Branch's staff level was increased from 17 in 1985, to 42 in 1986.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included an assessment of whether the Branch controls and procedures monitored the compliance of credit unions with legislation.

CONCLUSIONS AND FINDINGS

We concluded that the Branch did not have adequate management controls and procedures to effectively monitor compliance with legislation. Specifically we found that:

- **The Ministry's role in monitoring and regulating credit unions had not been fully accepted by the credit union industry.**
- **Significant problems existed in providing financial assistance to troubled credit unions.**
- **Few field examinations of credit unions, including examination of both parties in a merger, had occurred due to insufficient resources.**
- **The timeliness of submissions and the review of statutory information was deficient.**
- **Attempts by the Ministry to expand the role of the credit unions' external auditors remained unresolved.**
- **The legislation did not provide a clear definition of what constitutes a conflict of interest.**

A number of management initiatives were underway to enable the Branch to meet its legislative and administrative responsibilities.

COMMENTARY

Background

There are over 850 credit unions in Ontario with approximately $7.0 billion in assets. The operations of credit unions are monitored by the Credit Unions and Co-operatives Services Branch in conjunction with three credit union leagues and the Ontario Share and Deposit Insurance Corporation (OSDIC).

The primary function of the credit union leagues, which are basically trade associations, is to provide financial stabilization support and ancillary services to its members. Prior to January 1, 1984 these responsibilities were primarily the responsibility of OSDIC. Of the three leagues currently in operation, the Credit Union Central of Ontario (Central) is the largest, with over 750 member credit unions. All but approximately 50 credit unions are affiliated with one of the three leagues.

OSDIC's primary role is to insure each credit union member's deposits up to $60,000. Other responsibilities include provision of financial stabilization support to unaffiliated credit unions, and acting as liquidator in dissolving unsuccessful credit unions.

The Credit Unions and Co-operatives Services Branch reviews annual audited financial statements, performs field examinations of credit unions and leagues and monitors the leagues' stabilization funds. In addition, to enhance the financial stability of credit unions, the Branch also establishes standards for reserves, liquidity, and matching of investments with liabilities.

Ministry's Regulatory Role Not Accepted

Our review of recent field examination reports, internal correspondence files and Branch and credit union industry position papers indicated that there were major problems still unresolved within the credit union system. Essentially, the credit union industry had not fully accepted the authority, role and responsibilities of the Ministry. Specifically we noted that:

- **Since 1975 the Central League has been disregarding the authority of the Branch to enforce several sections of the provincial legislation dealing with membership, borrowing and investment powers, etc.** It has been the League's position that since it is also registered under federal statute it should be subject to the provincial statute only in those areas not specifically covered by the federal statute. The Ministry has maintained that if the League wants to operate under two Acts, it should be bound by the narrower or more restrictive provisions of the two Acts.
- **The Central League had challenged the Branch's authority to issue industry wide directives relating both to compliance with the Act and towards financially strengthening the industry.** However, we were informed that the individual credit unions appear to have accepted the Ministry directives and are endeavouring to implement them.

- **The credit union industry had not accepted the Ministry's authority on important matters such as responsibility for field examinations or the control and use of stabilization funds.**
- **The approximately 50 unaffiliated credit unions were challenging OSDIC's authority to levy higher deposit premiums on them, as compared with those credit unions belonging to a league.**

On December 17, 1985, credit union representatives, senior Ministry regulators and OSDIC representatives met with the Minister of Consumer and Commercial Relations. At that meeting the Minister expressed his continuing interest in credit unions, but noted the failure of the system to work cooperatively. The Minister indicated that if credit union representatives could not develop a global approach to stabilization and rehabilitation by January 1986, an arbitrator or board of enquiry would be appointed.

The industry responded on January 31, 1986 with a discussion paper entitled "A Proposal to Strengthen the Credit Union / Caisse Populaire System". Included in the proposal were 11 recommendations to ensure the continued strength and solvency of the system. No response had been made by the Ministry to this proposal at the conclusion of our audit.

While the authority of the Ministry to monitor and regulate the credit union industry has been questioned in the past, the Ministry has endeavoured to fulfill its mandate. However, for the Ministry to carry out its role effectively and for the industry to maintain consumer confidence, the industry must become fully supportive of the government's regulatory role.

Problems in Providing Financial Assistance to Troubled Credit Unions

The Credit Unions and Caisses Populaires Act provides for the establishment of stabilization funds. These funds have been established by the leagues and OSDIC to provide financial assistance to impaired credit unions to rehabilitate their operations and to minimize their losses. Three funds, plus one with OSDIC, have been set up totalling approximately $45 million, of which $30 million pertains to the Central League.

Statistics prepared by the Ministry as of September 30, 1985 showed 100 credit unions with accumulated deficits of $79.4 million. Internal Ministry documents indicated the deficits had resulted from mismatching of assets and liabilities during periods of increasing interest rates, poor controls over credit granting, self dealing and illegal loan activity.

Of the 100 credit unions in a deficit position, 85 with accumulated deficits of $72.8 million belonged to the Central League. In order to improve the financial condition of its stabilization fund of $30 million, the League was considering requesting increased contributions from its members.

There was some doubt as to whether the Central League's members would give their full support to such increased contributions. For instance, during 1981, when the Central League asked its members to contribute to a liquidity pool, about 35 credit unions withdrew from the League. These included two of the largest credit unions in the Province, which withdrew in 1981 and 1983 respectively.

If the more successful credit unions withdraw from the leagues and thereby remove their financial support for stabilization funds, it will become increasingly difficult to financially support all troubled credit unions.

A January 1986 discussion paper submitted by the credit union industry stated that it would cost an estimated $7 million per year in interest costs to finance the current deficits of troubled credit unions. In order to eliminate the deficit situation, stabilization funds will continue to require increased member contributions. This will result in the marginally successful credit unions suffering additional financial hardship as more of their profits are contributed to stabilization funds. An alternative would be to liquidate through OSDIC or merge the credit unions rather than attempt to continue them.

Adding to the problem was the absence of regulations governing the operation of the stabilization funds. Draft regulations had been prepared, but, at the time of our review, the Ministry had not finalized the wording. The development of regulations may assist the industry in providing more effective aid to its troubled members.

While recognizing the complexities of the issues involved, we reiterated that an early resolution of the problems identified was desirable to ensure the financial viability of stabilization funds and the credit union industry.

Increased Field Examinations Needed

General

In the first quarter of 1985, the Branch identified 117 credit unions requiring field examinations. Since that time there have been regular additions to the list. Until December 1985, owing to a limited number of staff, field examinations were possible only on a limited basis. Since early 1986, when the examination staff increased from five to eleven, an extended program has been undertaken. **However, as no Ministry examinations had taken place on a regular basis since 1977, an extensive review of loan portfolios has become necessary in each credit union.** This is time consuming, and consequently the targets set for examining each credit union have had to be extended.

We reviewed four of the files for credit unions which had received limited field examinations and noted that proper business practices had not been followed and as a result funds had either been lost or misappropriated. Our review indicated that these improper business practices would likely have been discovered and the loss prevented had regular field examinations been conducted. For example, an internal desk review of financial information submitted resulted in one credit union being rated as in good condition. However, a subsequent field visit disclosed that a possible misappropriation of funds had occurred with a potential loss of $5 million.

Internal desk financial evaluations are a poor substitute for comprehensive field examinations. For the Branch to enforce sound business practices for the protection of the credit unions' depositors and members, periodic field visits to all credit unions are important. Without these, problems could go undetected until they adversely affect a credit union's ability to operate.

Recognizing the benefits of field examinations in achieving its legislative responsibilities, the Branch has hired nine additional staff examiners. With the additional staff and a new computer based system in place, the Branch plans to visit each credit union at least once every 18 months.

Mergers

As part of the leagues' loss prevention / rehabilitation service recovery plan for credit unions in a deficit position, some of the credit unions may be encouraged to merge or amalgamate with a more financially stable credit union. This option provides for the continuation of the credit union and its services and is considered by the leagues to be preferable to dissolution. Thirty such mergers had been completed as at March 31, 1986.

In 1983, a credit union, which at the time appeared financially sound, merged with two other credit unions. However, in 1985 an operational analysis indicated that this credit union had deficits totalling $5 million. It was also discovered that a misappropriation of funds and improper lending practices over the years had contributed to the credit union's poor financial condition. Had a field examination of the credit unions been performed at the time of the merger the problems may have been discovered and earlier corrective action initiated.

It is the Branch's policy to visit all parties in a merger, but due to staff shortages this has rarely been done. We were told that the Branch has given this area a high priority and is reviewing recently merged credit unions.

Submission and Review of Statutory Information

Each credit union is required to submit to the Branch an annual return prescribed by the Ministry, together with financial statements, not later than four months after the fiscal year end. Also, a copy of the notice of the annual meeting of members, accompanied by a copy of the financial statements is to be filed with the Branch at least seven days before the date of the meeting.

An analysis of the Branch's records indicated that approximately 15 per cent of the 1983 and 1984 financial statements and 45 per cent of the corresponding annual returns were received two to six months late.

The failure of a credit union to meet reporting deadlines may indicate that it is having management and financial problems. For example, in one file we noted the Branch had not requested a credit union to submit its 1984 financial statements or indicate the date of its annual meeting. The Branch personnel believed that a request was unnecessary as the credit union was in the process of merging. In August 1985, while making inquiries about the lack of financial statements and an annual meeting, the Central League discovered a $30,000 misappropriation at this credit union. Ministry records also indicated that a $13,000 misappropriaton had taken place in 1983.

This example emphasizes the importance of promptly following up on credit unions not complying with the reporting requirements of the Act.

The Ministry has chosen not to levy a penalty for late submission of financial statements and annual returns, although section 143(1) of the Act provides for a penalty of $50 for each day the default continues.

In 1983, the Ministry's Internal Audit Branch reported similar observations. In March 1984 management responded that, commencing October 1984, the late filing penalty provisions would be enforced and that an appropriate system for billing and recording of penalties would be introduced.

Our review indicated that no credit union had been penalized for late filing nor had any system been developed to enforce this requirement.

Delays in Desk Reviews

In 1983, the Ministry's Internal Audit Branch reported that the desk examinations performed by the Ministry of these returns were not always reviewed by their supervisor, nor performed on a timely basis. Desk reviews were being completed as much as two to three months after the receipt of the annual return.

Branch management attributed the delays in reviewing the information to the backlogs created by a shortage of examiners and the clustering of credit union year ends around December 31. The Branch indicated that although a thorough review of each credit union was always performed, only the critical ones were done on an "immediate" basis.

Our review of desk examinations indicated that the preceding situation had remained unchanged. At the time of our audit, a significant backlog existed in the processing of the various financial and informational reports necessary to detect possible non-compliance with both the legislation and normal business practices.

We were informed that, with the help of the additional staff and a new operational computerized monitoring system, the Branch expects to improve the timeliness of its review process.

Increased External Auditor Responsibility

The financial statements of all credit unions are required to be audited annually by external auditors. The Credit Unions and Caisses Populaires Amendment Act, 1983, of which section 115 has yet to be proclaimed pending completion of discussions between the Ministry and the Institute of Chartered Accountants of Ontario (ICAO), deals with the contents of the auditor's report. It places a greater reporting responsibility on the auditors of credit unions by requiring the auditors to report on a broad range of matters including whether, in their opinion, the credit unions are in a satisfactory financial condition.

In December 1985 the Ministry, as part of its ongoing discussions with the ICAO, developed a comprehensive checklist to be completed by external auditors when conducting their annual audits of credit unions. This completed checklist, along with the proposed audit report would provide the Ministry with information necessary to assist it in discharging its regulatory responsibilities. The current version of the checklist is under review by the ICAO.

The requirement of external auditors to report on adherence to sound business and financial procedures is desirable in the regulatory monitoring of the credit union system. The content of such reports would provide an early warning of possible problems thereby allowing the Ministry to more effectively concentrate its efforts on those credit unions experiencing problems.

Conflict of Interest Guidelines Needed

The Act did not provide a clear definition of what constitutes a conflict of interest. Although the Act prevents an employee from holding a directorship, there is no specific provision to disclose or restrict loans for business purposes to directors or to related parties.

Branch investigations indicated that loans to related parties contributed to the financial problems facing two large credit unions. In one instance, it was alleged that the manager of a credit union made loans totalling $10 million to a company operated by family members. The repayment of this loan was in doubt and required the league to financially support the credit union until a suitable merger candidate has been found.

The development of standard conflict of interest guidelines would ensure that all officers and elected committee members become aware of what constitutes a conflict of interest as well as the procedures to be followed should a conflict arise.

The introduction of province-wide standards would minimize conflicts and prevent potential conflicts from arising.

In addition, the resignation of credit union officers, officials or auditors, along with their reasons, should be reported to the Ministry. This would allow the Branch to determine if the reasons for the departure warranted investigation.

We were informed by Branch management that the Central League was in the process of developing conflict of interest guidelines for its member credit unions. While this is a positive step, a standard guideline for all Ontario credit unions established by the Ministry would be more desirable.

RESPONSE

The Deputy Minister responded to our comments and recommendations on August 25, 1986.

General

"I appreciate the recognition given to the various management initiatives underway which will enable the Credit Unions and Cooperatives Services Branch to meet its expanded legislative and administrative responsibilities. Your encouragement is timely.

"On Thursday, August 21, 1986, The Minister of Financial Institutions, the Honourable Monte Kwinter, announced a series of initiatives with respect to the regulation of credit unions and caisses populaires, a number of which address issues raised in your report, and which respond to the industry's 'A Proposal to Strengthen the Credit Union / Caisse Populaire System,' submitted to the Minister on January 31, 1986.
These include:

- an enhanced regulatory function to address issues raised under the heading [Ministry's Regulatory Role Not Accepted];
- funding and an enhanced role for the deposit insurer to ensure financial assistance is directed to those units requiring it. Legislation will be proposed to clarify roles and responsibilities of stabilization funds;
- a provision for audit committees within Board of Directors to enhance 'External Auditor Responsibilities'. Legislation will be proposed to clarify those matters of current concern to the audit profession;

- clarification of accounting for credit union mergers whereby accumulated losses cannot be capitalized in the financial accounts of purchasers;
- legislative proposals to tighten up rules covering conflicts of interest and self-dealing."

Increased Field Examinations Needed

"The point is well taken that regular examinations could minimize the types of problems our records highlight, and that is the reason for the expansion of the examination team from five in 1984 to an authorized nineteen, plus support staff as assigned, in 1986.

"The examination program in its revised format only commenced in early 1986. Managers had been hired only a few months before and have worked to develop an appropriate documentation format and review process. Your comments are helpful, particularly as your review took place during the initial examination undertaken by the newly expanded organization. A manual is being developed which brings together your observations as well as the experiences of our own staff. The common standards included review by Managers of Examinations of working papers, and indexed documentation."

Submission and Review of Statutory Information

"Your comments on late filings and processing of annual returns address matters that are of concern to the Branch. Delays in the recruitment and orientation of new staff have not permitted as early a correction of this matter as we may have preferred. However, we are cognizant of the need and vigorous follow-up procedures are now being implemented."

4.6

Inequitable Funding Arrangements and Weak Monitoring of Public Health Programs, Ministry of Health

The delivery of public health programs and services has traditionally been the responsibility of municipalities. However, their development, coordination and to a large extent funding, is the responsibility of the Public Health Branch of the Ministry of Health.

For the 1986 fiscal year, expenditures of the Branch totalled $131.2 million, of which $93.3 million were grants to local health agencies (Vote 3605, Item 5).

SUMMARY

SCOPE AND OBJECTIVES

Our audit objectives included an assessment of whether:

- the allocation of available funding to the municipal health agencies was equitable and permitted delivery of legislated health programs;
- the Ministry was monitoring health agencies to ensure that public health legislative requirements were met.

CONCLUSIONS AND FINDINGS

Funding Arrangements

The method of allocation of funds to health agencies was not equitable and did not facilitate delivery of the legislated public health programs.

- **In 1984 annual per capita public health expenditures varied significantly among the agencies, ranging from a high of $36.50 to a low of $9.60.**

Monitoring

Ministry monitoring procedures were weak.

- **There were no formal inspections of agencies to ensure required public health services were being carried out.**
- **Agencies were not complying with mandatory guidelines.**

COMMENTARY

Background

Public Health programs are regulated under the Health Protection and Promotion Act which provides for the establishment of municipal health agencies. There are currently 43 local health agencies which provide public health services across the Province. These agencies are responsible for delivering the following Core Programs: Community Sanitation, Control of Communicable Diseases, Preventive Dentistry, Family Health, Nutrition and Public Health Education.

The costs of delivering the Core Programs are shared between the Province and the municipalities as follows:

	Province %	Municipalities %
Municipalities within Metropolitan Toronto	40	60
Other municipalities	75	25
Unorganized territories	100	—

To ensure that the legislated public health services are maintained throughout the Province and to assist the local health agencies to deliver the programs effectively, the Ministry has published Core Program guidelines to which agencies must comply.

Funding Arrangements

Overview

Estimated annual Ministry funding available to health agencies is usually announced early in the year in the form of an across-the-board percentage increase for all agencies over their prior year's approved expenditure budget. For example, in March 1986 the Ministry announced a maximum increase of four per cent in agency funding for each of the fiscal years 1986 and 1987 over the preceding years' budgets. Municipalities are expected to increase their share of agency funding proportionately.

Agencies may apply for additional funding referred to as 'Core Program Enrichment Funding' to bring their programs up to the mandatory Core Program requirements. It is limited to four per cent of their 1981 approved budget and is a transitory provision.

Inequitable Funding Arrangements

We concluded that, notwithstanding the enrichment funding, the present procedure of limiting annual increases of individual health agencies to a fixed percentage of their prior year's approved budget has failed to adequately address the existing funding inequity among agencies. This has affected their ability to comply with the Core Program requirements.

- **1984 annual per capita expenditures in the ten agencies ranged from a high of $36.50 to a low of $9.60. The comparable figures for 1980 were $22.00 and $7.00 respectively.**

Significant differences in the funding of health agencies unquestionably result in varying staffing levels and consequently affect an agency's ability to deliver the required public health services.

In two public health disciplines, the Ministry provided the following guidelines:

- one public health inspector per 12,000 population;
- one public health nurse per 3,400 population.

We compared the staffing levels of ten agencies in order to assess the possible impact of funding on the agencies' ability to meet Ministry guidelines. We found that the five agencies with the highest expenditures per capita in 1984 had 70 more nurses than the Ministry standard, while the five agencies with lowest expenditures had 137 fewer nurses than the standard.

Similarly, the five agencies with the highest expenditures had 25 more health inspectors than required by the Ministry guidelines, while the five agencies with lowest expenditures had 51 fewer inspectors than required.

The current remuneration paid to various public health professionals varies significantly from agency to agency thus further compounding the problem. This is illustrated in the table below:

	High	Low	Average
		in $000's	
Medical Officer	86.8	53.7	67.1
Nursing Director	61.3	32.1	40.0
Director of Inspections	61.8	30.1	39.9
Business Administrator	59.4	18.5	36.0
Inspectors	34.3	19.7	26.5
Nurses	34.3	22.3	26.4

Although the Ministry has no direct control over staff salaries at agencies, it could impose an upper limit on salaries and other benefits for funding purposes. This would encourage agencies to standardize their remuneration and the funding needs could then be examined in terms of the public health needs of the area.

We recommended that the Ministry reassess the present funding methodology to determine if it could be made more equitable.

Monitoring

Overview

To encourage compliance with legislated health programs, the Ministry took the following approach:

- Provision of mandatory guidelines (Core Program);
- A requirement that agencies provide certain information about their activities when requested by the Ministry;
- Provision of an in-house public health consulting service to advise and assist the public health professionals in local health agencies.

The mandatory Core Program guidelines issued in June 1984, which were expected to be fully implemented within two years, require the health agencies to provide to the Ministry, on request, specific information relating to Core Program requirements. For example, the agencies are required to maintain a wide range of statistical information, such as the number and type of premises inspected, the number of doses of vaccines distributed on account of disease control, and the number of private home visits by nurses.

Minimal Monitoring Being Undertaken

To ensure the delivery of public health services the Health Protection and Promotion Act provides for the inspection and monitoring of the local health agencies by the Ministry. The Act authorizes the Minister of Health to appoint inspectors of local health agencies to ascertain the extent of an agency's compliance with the Act and its regulations. **Although some Ministry officials in addition to their normal duties had been appointed as inspectors, up to the time of our audit, no formal agency inspections had been carried out.**

We found that the only attempt to monitor the activities of the health agencies had been in the area of the preventive dentistry and immunization status programs. This was carried out by the Branch consultant through annual questionnaires completed by the health agencies. The remaining consultants did not monitor Core Program implementation on a regular basis, but reviewed the individual agencies on an exception basis only, often in conjunction with requests for Core Program enrichment funding.

We were advised by the Branch management that formal questionnaires for monitoring all Core Programs were being developed and field tested.

We noted that one of the reasons for the minimal monitoring was the prolonged vacancies of consultants in the Branch. Another reason was that the emphasis of the Branch was more on consulting than on monitoring.

The consulting and monitoring positions in the Public Health Branch, excluding highly specialized medical consultants, were as follows:

Medical Officers	4
Nursing	2
Dentistry	1
Nutrition	2
Inspection	2
Engineering	1

A review of the four medical officer positions revealed that during 1984 and 1985, two of the four positions were effectively vacant. One of the consequences of this situation was that of the 43 planned orientation workshops for the agencies on mandatory Core Programs to be conducted in 1985, only 10 were conducted.

Similarly, a senior nursing consultant who resigned in April 1983 was not replaced until February 1984, while the junior nursing consultant who resigned in February 1983 was not replaced until September 1985. Therefore, the Branch had no nursing resources for almost an entire year.

Our interviews with various program personnel at the five health agencies visited revealed a consensus that the Branch consulting resources were inadequate and therefore not easily accessible.

In general, health agency staff we spoke to expressed a strong desire for more Ministry involvement and support, particularly in relation to the Core Program areas. The Ministry has felt that under normal circumstances health agencies should be able to function independently without much assistance. However, the Ministry was keen to provide any advice required in highly specialized areas such as toxicology.

We felt that regular monitoring of agencies for the implementation of Core Program guidelines is essential, not only to encourage them to comply with legislation, but also to maintain a high standard of public health services throughout the province.

Non-Compliance with Core Program Guidelines

Public Health Inspections

The Core Program guidelines provide for a minimum number of inspections by health agencies for all types of establishments identified in the inspection schedule. Examples of minimum inspection frequencies are:

- public swimming pools should have one inspection per month;
- restaurants should have six inspections per year;

We reviewed a random sample of the 1985 inspection activities of five health agencies.

We found that on average, 30 per cent of scheduled inspections were not performed, while approximately one in five establishments were not inspected at all.

Nursing and Related Services

Public health nurses provide services in the following broad areas:

- maternal and parental health services;
- immunization;
- control of sexually transmitted diseases;
- provision of preventive nursing care at private homes and schools.

It is difficult to measure the extent and completeness of compliance with Core Progam requirements in this area without a detailed review of agency operations and the population characteristics they are required to serve. Nevertheless the following observation points towards the existence of non-compliance problems at the agencies.

- Several agencies with fewer financial resources have had to make do with less than the required number of staff. Therefore, it is highly likely that the requirements under the Core Program guidelines are not being met. In fact, one agency we visited advised us that, although contrary to the Core Program requirements, the shortage of staff has prevented them from ensuring that all school going children beyond grade nine were immunized.

Nutrition Programs

In the nutrition area, Core Program requires every health agency to:

- assess the education needs of the population residing in the health unit and to update the assessment biannually.
- develop strategies to meet the identified education needs.

Of the five health agencies we visited, all stated that they could not and have not complied with these requirements, primarily due to staff limitations.

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 22, 1986.

Funding Arrangements

Inequitable Funding Arrangements

"The variation in service levels among public health agencies resulting from historically uneven local funding was a key factor in the development of **The Health Protection and Promotion Act, 1983.** That **Act** set out for the first time, a range of 'mandatory' core programs to be phased in by public health agencies over five years, beginning in mid-1984.

"To support the implementation of the mandatory core programs, the Ministry of Health makes available to local health agencies, core program enrichment funds. Currently, the acceptance of these enrichment funds, with the exception of the 100% Ministry funded family planning program, is dependent upon the willingness of the local municipality to assume their share of the costs.

"During the initial stages of core program implementation, each local health agency has been entitled to annual core program funding enrichment to a maximum of 4% of their 1981 approved budget.

"The Ministry is reassessing the present funding methodology in order to reinforce the primary objective of mandatory core programs. The Ministry is making available enrichment funding beyond the previous maximum entitlements. In 1986/87, those local health agencies who are experiencing core program implementation levels of less than 75%, will have access to additional enrichment funding. 'Demographic shifts' are also being taken into account in the 1986/87 budget-approval process: special consideration is being given to requests for additional enrichment funding from those local health agencies serving areas with high population growth. Funding needs are being examined in terms of public health needs.

"The suggestion that the Ministry impose an upper limit on salaries and other benefits to encourage standardization of remuneration requires careful consideration of all implications. Such a move could eventually result in province-wide wage parity."

Monitoring

"... mandatory core programs are being phased-in over a five-year period. Recognizing the mid-1984 introduction and variable take-up rates at the local level, complete compliance is not expected to have been accomplished at this date. Substantial progress is being made and the allocation of enrichment funding described previously will accelerate the pace of implementation and compliance."

"The staffing level of the Public Health Branch is sufficient to provide advice and support to local health agencies for general programs. The Ministry's approach of consultation and advice recognizes and respects the local autonomy of the public health agencies. A more direct but still supportive role is played by the Ministry in highly specialized areas where it is neither practical nor realistic to expect local agencies to have 'in-house' expertise.

"Ministry staff have visited 37 of the 43 health agencies since April 1986 for a formal review to determine the stage of compliance for core programs and to promote core program implementation. The remaining six agencies will be reviewed before the year's end.

"A working document has been prepared and is now being finalized which will allow the Ministry to monitor implementation routinely and to quickly focus on problem areas."

4.7
Improvements in Operational Efficiency Required in Human Rights Commission Program, Ministry of Labour

The Human Rights Commission has been established to ensure that equality of rights and opportunities are provided to every Ontarian without discrimination.

The estimated expenditures for the Commission in the 1986 fiscal year were approximately $4.9 million, including $3.3 million for salaries and employee benefits (Vote 2506).

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Human Rights Commission Program assessed whether management controls were adequate to ensure efficiency and compliance with legislation.

CONCLUSIONS AND FINDINGS

We concluded that the Commission had generally complied with legislation. However, procedures to monitor and enhance staff utilization and efficiency required improvement. Specifically, we found:

- **Lack of overall monitoring of case investigations;**
- **Long delays or gaps in case investigations.**

COMMENTARY

Background

The objective of the Human Rights Commission is to administer the Ontario Human Rights Code in order to create a climate of understanding and mutual respect where the dignity of every person is recognized, and where equality of rights and opportunities is provided without discrimination. This program is administered by two divisions — the Conciliation and Compliance Division and the Race Relations Division.

The mandate of the Conciliation and Compliance Division is to investigate and conciliate complaints by persons who believe they have been discriminated against in violation of the Ontario Human Rights Code. The Division has a staff of 58 employees including 39 investigation officers located in 15 district offices throughout the Province.

Need for Improved Overall Monitoring of Investigations

The thirty-nine officers report to eight regional supervisors. Supervisors assign registered complaints to officers for investigation and monitor and review officers' work. Officers submit reports to supervisors for review after each major phase of an investigation (fact finding, conciliation) has been completed. Supervisors give officers further instructions or suggest follow-up actions where appropriate. Once a month supervisors review their respective officer's case loads, identifying what has been done in the previous month and deciding what future action needs to be taken.

One supervisor oversees the work of up to 8 officers, each of whom handles over 50 cases per year. In 1984-85, 44 per cent of the cases closed required over 6 months to complete.

We found that although supervisors held regularly scheduled case reviews with officers as work on a case progressed, no written action plan existed setting out the type and nature of the complaint and the evidence needed to prove (or disprove) the allegations. We observed during our review that a number of cases with no action plan required more than one year to complete. For instance:

- **In excess of one year was taken to discover that a hospital was not discriminating against a blind man by refusing to allow his seeing-eye dog into a sterilized unit.**
- **Approximately twenty months elapsed in the investigation of a complaint by a man who failed to meet a city police force's height requirement. The case was eventually dismissed by the Commission.**

We were informed by the Commission that these cases were unique and complex, and as a result took longer than a normal case to complete.

We acknowledged that a number of cases may be complex, that complainants and respondents are often difficult to deal with, and that officers generally have heavy caseloads. However, we felt that an approved action plan would ensure a speedier investigation and resolution of cases. The Canadian Human Rights Commission, for example, has recently required its investigation officers to document preliminary action plans for each case approved.

We were informed that the Commission has been developing new procedures requiring a written Investigation Plan to be prepared on every case except in "Priority Case Handling" (cases where quick action is required). At the outset of the complaint the Investigation Plan details the mode of handling (e.g. Priority Case Handling, Rapid Case Process, Extended Investigation) as well as setting out the type and nature of the complaint and the type of evidence that is needed to prove (or disprove) the allegations.

Excessive Delays in Case Investigation

A complainant who believes that he or she has been discriminated against registers a formal complaint with the Commission. The officer to whom the case is assigned obtains the relevant details and contacts all parties involved in the alleged violation, including witnesses. A fact finding conference is usually held at which the complainant and respondent provide evidence to support their positions. Settlement may take place at this stage. If not, the officer begins an extended investigation to obtain further evidence.

There are three possible dispositions of all cases: settled, dismissed or withdrawn. Settled cases refer to complaints in which the complainant, respondent and Commission have reached a satisfactory resolution of the matter. Withdrawn complaints are those in which the complainant has indicated that he or she does not wish to proceed with the matter. Dismissed cases are complaints in which conciliation has not resulted in settlement and the Commission, upon evaluating the complaint, decides that the evidence does not warrant further action. During the 1985 fiscal year the Commission closed 1,070 complaints. Of these, 74 per cent were settled, 14 per cent were dismissed and the remaining 12 per cent were withdrawn.

The Commission believes that the faster a case is investigated the greater the chance for settlement. The longer a case remains outstanding the more likely it is that either the complainant will lose interest and abandon the complaint, or the Commission will not be able to locate either the complainant or the respondent. Additionally, the particulars of the case can become less clear to all parties with time especially to witnesses. This results in a more prolonged case investigation. The Commission, recognizing the importance of prompt investigation, has decided that an average case should generally take a period of six months to complete.

We observed during our review that officers were not given a target date for case completion.

We acknowledged that the Commission had settled the majority of its cases. **However, we selected a sample of 40 cases which were either dismissed or withdrawn during the previous two years. We noted that in eight cases either the complainant was no longer interested in pursuing the case or the Commission could not locate the respondent or the complainant. Furthermore, in each of these eight cases there was a long period of time when there was no documented evidence of any work done. For instance:**

- **One complaint was registered in July 1982. This case was not worked on in the following 12 months. When the investigating officer tried to resume contact in June 1983 the complainant had moved and could not be located.**
- **In seven cases there were gaps of between five and 18 months in case notes on file.**

We believed that setting target dates would encourage more timely completion of cases.

We noted that during the 1985 year over 40 per cent of cases were not completed within six months from the date they were registered. Furthermore, a review of the outstanding cases during October, 1985 revealed that over 30 per cent were outstanding for longer than 12 months, including 10 per cent which were over 24 months.

We were informed that 20 new Human Rights Officers, one Legal Counsel and seven clerical employees were hired in 1986 and assigned to deal primarily with the backlog of complaints identified in December 1985 as being active for a period of six months or more. Furthermore, a coordinator was assigned to establish the framework for the backlog reduction program and manage and monitor its progress.

We recommended that:

- the Commission set target completion dates for each case;
- these target dates be monitored to avoid unnecessary prolonged gaps in case completion.

We were informed that a number of measures had recently been implemented to expedite the casework process by reducing reporting and documentation requirements and tightening up certain procedures. Furthermore, in July 1986 the Commission introduced a three to six months timeframe case monitoring system. Under this system a targeted time period for the resolution of complaints is established experimentally. We were told that these changes should greatly reduce the delays in the casework process.

RESPONSE

The Ministry responded to our report on July 31, 1986.

Need for Improved Overall Monitoring of Investigations

"The Commission does not agree with the Auditor's conclusion that an action plan would have reduced the time spent on the two complaints in question. The following discussion will clarify the reasons for which lengthy and comprehensive investigations were warranted. It is also important to note that the Supervisors had direct hands-on involvement throughout the process, and the Director became involved at various stages.

"In the first case, it is observed that 'the officer spent over 150 hours to discover that a hospital was not discriminating against a blind man by refusing to allow his seeing-eye dog into a sterilized unit.'"

"This complaint, which was filed on September 22, 1983, alleged discrimination with respect to the goods, services and facilities offered in the Dialysis Unit of... Hospital because of handicap, in contravention of section 1 of the Code. The case raised a number of precedent-setting issues relating to two equally important but competing rights: the right of the hospital to maintain a safe clinical environment and the right of a handicapped individual to receive treatment on an equal basis as those without a handicap.

"The allegations raised in this complaint may have had very dire medical consequences had a proper resolution of the matter not been achieved. Mr..., a blind person who uses a guide dog, suffers from kidney failure that requires that he attend the renal dialysis unit at... Hospital three times per week. He was being denied entrance to the dialysis unit because of his dog. The respondent advanced several reasons for the denial, which had to be addressed in the investigation. The subject matter of the complaint became cause for criminal charges being laid under the Blind Persons Act and was front page news in two major Toronto daily newspapers.

"Because the respondent admitted a denial of services based on handicap, considerable investigation was required to determine whether the denial was reasonable and *bona fide* in the circumstances. The investigation also had to examine whether or not the respondent had made reasonable efforts to accommodate the complainant.

"In the second complaint, the Auditor observed that 'another officer spent over 150 hours to investigate the complaint of a man who failed to meet a city police force's height requirement.'"

"This complaint was also the subject of news reports and an editorial in the Windsor Star, and involved a man who alleged on July 15, 1983, that he was denied consideration for employment as a police constable because of his height. His complaint alleged a contravention of S. 4(1) of the Code, in that the police department viewed his stature (5′6″) as a handicap which prohibited him from effectively performing the duties of a police officer.

"The respondent confirmed that it maintained a height requirement for men of 5′8″ and it was, therefore, necessary to conduct considerable investigation in order to determine whether or not the exclusion was reasonable and *bona fide* in the circumstances.

"Among the complexities at issue were the following:

- To determine the bona fides of the height requirement, the Commission had to investigate the respondent's claim that a height of 5′8″ or more is necessary for a Police Constable to carry out his functions. The testimony of witnesses and research were reviewed in this regard.
- The complaint, at the time, was novel and one for which there was no legal precedent. Previous cases and Boards of Inquiry had dealt with height restrictions as being discriminatory on the basis of sex, but no previous complaint had treated height as a handicap. This required extensive research of the jurisprudence.

"Although these two cases were dismissed by the Commission, this does not alter the importance of the issues raised by the allegations and subsequent investigation. The Commission is charged with the critical responsibility of both proving and disproving allegations of discrimination, and the parties to the complaint must be provided with sound reasons for the dismissal of the case, in writing."

"The rationale for developing an Investigation Plan is to improve the quality of the gathering and analysis of evidence, through the design of a blueprint for handling the case. It is important to note, however, that the Investigation Plan may not necessarily reduce the amount of time required to complete the investigation and analysis of the findings given the complexity of issues to be addressed. Where savings of time will be evident is at the conciliation stage. The success of conciliation negotiations is contingent upon the quality of the investigation; a settlement is more readily achieved if all of the essential facts at issue are placed before the parties at the conciliation table.

"In brief, the Commission agrees with the recommendation to institute an Investigation Plan, with the important caveat that such a Plan will of necessity be flexible in nature to accommodate contingencies that arise as the investigation proceeds."

Excessive Delays in Case Investigation

"The Commission is of the view that a sample of 40 cases is not a reliable sample and is not representative of the large volume of cases closed annually throughout the province. Moreover, the 40 cases had either been dismissed or withdrawn, and cases referred to the Commission for such disposition typically involve a significantly higher amount of time to resolve than the 70 per cent of cases that are settled in conciliation.

"It may be useful to compare the average time required for the resolution of complaints among several human rights commissions in Canada:

Saskatchewan:	7	months
Manitoba	9	months
Ontario:	9.3	months
Canadian:	13	months
Quebec:	24	months (normal cases),
	6	months (priority cases)

"These figures reveal that the Commission compares favourably on this dimension, notwithstanding the large increases in its workload since 1982."

"The Commission disagrees with the Auditor's Statement, that 'Officers are not given a target date for case completion.' It is the Commission's practice to assign priorities as dictated by the urgency of the complaint, e.g., where the complainant has been refused employment or dismissed from employment, and has not obtained another job, or where the complainant has been refused occupancy of housing accommodation. Alternatively, there may be a great deal of interest in the complaint in the community and advocacy organizations.

"It is the experience of the Commission that it is not always possible to set a target date for individual case completion at the outset of the investigation. Where this is the case, targets may be set for the completion of the investigation, or the holding of a Fact Finding Conference or conciliation negotiations.

"The Auditor has also noted,... that over 40 per cent of cases were not completed within six months of registration, and over 30 per cent were greater than 12 months old, including 10 percent that were over 24 months, at March 31, 1985.

"It is important to note that 80 per cent of cases over 24 months old were beyond the control of the Commission. These cases were pending Boards of Inquiry and court proceedings.

"It would be useful to review the statistics on the aging of cases over time. In the period 1981/82 to 1984/85, the average time of case resolution was reduced by 23 per cent, and the number of cases closed within six months of registration had increased from 49 per cent in 1982/83 to 56 per cent in 1984/85. A corresponding decrease took place in the percentage of cases taking more than a year to resolve: such cases comprised 35 per cent of cases closed in 1982/83, as compared with 21 per cent in 1984/85."

"An additional measure to expedite the resolution of complaints assigned a high priority was introduced in 1984. The 'Priority Case Handling' method is now used in approximately 20 per cent of complaints.

"In early April of this year, the Chairman appointed the Planning Committee on the Operational Review, composed of the Commission's Vice-Chairman and senior members of staff. The Committee is revising all Compliance procedures and among these new initiatives will be the development of a procedures manual for staff on the administration of the code and the processing of complaints. In addition, complaint procedures will be standardized to ensure consistency in their application across the province."

"The Auditor's recommendations regarding target completion dates and case-flow monitoring have been addressed, in the Commission's view, through the procedural changes to the casework process and the new timeframe for cases resolution.

"However, an overall target for the completion of cases, of six months on average, is not now possible, since the average caseload per Officer stands at 30 files, with the number exceeding 60 in some instances. Inadequate staff resources and high individual caseloads operate as barriers to the realization of a general target date of six months for completion."

4.8

Operational Improvements Warranted, Occupational Health and Safety Program, Ministry of Labour

The Occupational Health and Safety Program evaluates health and safety hazards, provides related services and advice, and monitors working conditions to promote workplace health and safety in Ontario.

The 1985-86 estimates allocated $7.6 million to the Industrial Health and Safety Branch (Vote 2504, Item 3) and $8.7 million to the Occupational Health Branch (Vote 2504, Item 5).

SUMMARY

SCOPE AND OBJECTIVES

As part of our audit we reviewed two branches in the Occupational Health and Safety Program, the Industrial Health and Safety Branch and the Occupational Health Branch.

Our objectives were to assess whether management controls were adequate to ensure efficiency, compliance with legislation, and to measure effectiveness.

CONCLUSIONS AND FINDINGS

Occupational Health and Safety Program

Industrial Health and Safety Branch

We concluded that improvements were needed for the Branch to carry out its mandate effectively and to realize full potential from its employees. Procedures to ensure that employers and employees comply with legislation also needed improvement.

We found that:

- **A significant number of companies warranting inspection had not been identified for inspection.**
- **The assignment and completion of inspection visits were not being conducted in accordance with priorities established by the Ministry.**
- **In a majority of prosecutions for safety violations, prosecution was initiated only after an accident had already occurred.**

Occupational Health Branch

We concluded that management controls were generally adequate.

During the audit we noted:

- **Costs of clinical and medical services provided by the Branch are in the annual range of $1-1.5 million. The Ministry has decided against recovery of these costs through user fees.**

COMMENTARY

OCCUPATIONAL HEALTH AND SAFETY PROGRAM

Industrial Health and Safety Branch

Background

The Industrial Health and Safety Branch is responsible for ensuring that employers and workers implement effective occupational health and safety programs, which reduce the incidence of illness or injury caused by industrial activities. The Branch administers and enforces the Occupational Health and Safety Act and regulations, covering an estimated 3.3 million workers in more than 150,000 workplaces in the Province. While the Act calls for employers and workers to meet a number of health and safety requirements and allows Ministry of Labour inspectors access to workplaces, it does not require the Ministry to conduct periodic inspections to ensure compliance.

In order to promote health and safety in the workplace the Branch identifies workplaces and conducts inspections of these workplaces on a cyclical basis. However, the Branch does not purport to provide comprehensive inspection services.

One hundred and twenty inspectors located in 24 regions throughout the Province are responsible for administering and enforcing the Occupational Health and Safety Act and regulations in industrial establishments and other workplaces such as hospitals and schools. In the 1985 fiscal year inspectors conducted over 40,000 plant visits.

Inspectors of the Branch visit workplaces at various intervals, conduct investigations into work refusals, deaths, critical injuries, serious accidents and follow up complaints. Some activities, such as the investigation of work refusals, are required by the legislation, while others, such as inspections, are not mandated and are discretionary activities. The inspection program is therefore largely dependent on available resources.

During an inspection visit a Branch officer inquires as to whether the workers have any unresolved health and safety concerns. The officer also conducts a physical inspection of the workplace and identifies any contraventions which result in a work order (instructions to comply with the Act). If the order is not complied with by the next visit, the inspector initiates a prosecution.

Establishments considered high risk are given short inspection cycles and are visited as frequently as every three to six months, while lower risk workplaces are assigned a longer cycle of 24 to 36 months. Extremely low risk companies such as offices and retail stores, are not scheduled for inspection.

One concept considered fundamental to a healthy and safe work environment is the Internal Responsibility System (IRS). The IRS is reflected in the legislation by the complementary duties placed on employers, supervisors and workers, and the rights given to workers and their representatives and joint health and safety committees to ensure that employers, supervisors and workers fulfill their obligations under the legislation. The IRS is designed to ensure that health and safety concerns in the workplace are addressed on an ongoing basis.

The effectiveness of the IRS is recognized as the critical factor in accident prevention. Therefore, although the Ministry's inspection process is designed to keep the basic internal system alert and responsive, it is not intended as a substitute for the knowledge, training experience and commitment of management, supervisor and worker.

Inadequate Identification of All Companies

Workplaces are generally identified by field staff, through applications for pre-development review, complaints received regarding unregistered employers and by head office staff as a result of notification of accidents to the Workers' Compensation Board (WCB). Employers are required by law to register with WCB, but they are not required to register with the Ministry.

Prior to April 1985, when an unregistered employer came to the Branch's attention, an initial determination was made as to whether the enterprise was within a high or low risk industry. If the workplace was determined to be high risk an inspection would be conducted and the workplace would be registered. However, if the workplace was determined to be low risk, an inspection might not be conducted and the workplace might not be registered. After April 1985, all workplaces regardless of risk have been registered with the Branch.

During our review we noted that while the WCB had registered over 150,000 employers, the Branch had recorded approximately 66,000 establishments under its jurisdiction. We then reviewed 107 of those WCB registered workplaces that were within the Branch's jurisdiction.

Twenty-four of these had not been registered by the Branch. While a majority of the 24 firms were smaller companies, 17 out of the 24 were in high risk industries.

Many of the 80,000 workplaces registered by the WCB, but not with the Branch, are extremely low risk companies. **Nevertheless, we felt a significant number of companies not considered for inspection should be considered.**

We also noted that in the year ended November 1985, two fatalities and 8 critical accidents had occurred in workplaces not registered with the Industrial Health and Safety Branch.

In one fatality, the Policy Branch of the Ministry had contacted the Industrial Health and Safety Branch several months prior to the accident to obtain information on the company's health and safety record. This request related to a loan the company was applying for from another ministry. The Industrial Health and Safety Branch informed the Policy Branch that no file existed on this company. The company was not registered, nor was an inspection initiated until the date of the fatality. We learned that when the first inspection was made, over 50 orders were issued for various contraventions under the Act and its regulations.

Inspections don't necessarily eliminate fatalities and critical accidents. However, in this case, the presence of an inspector may have ensured that the Internal Responsibility System was alert and responsive.

We were advised that since this occurrence all companies brought to the Branch's attention via this loan program would be considered high priority for inspection.

The Branch has made a concerted effort since August 1985 to reconcile all existing WCB registered companies with its own establishment files. The Branch has also developed a new system to identify all companies newly registered with the WCB and within branch jurisdiction. As of December 1985, 2,880 companies had been registered via this system while 9,400 companies had been rejected as not falling within branch jurisdiction. We checked a number of these rejected companies and noted that some do fall within branch jurisdiction and should have been registered. We recommended that the system to categorize new registered WCB companies be reviewed.

Inconsistent Inspection Cycles and Visits

Cycle Assignment

The Branch conducts inspections of workplaces on a cyclical basis. The cycle (frequency of inspections) is determined by the inspector and based on a number of factors including:

- accident/injury frequency and type
- number of workers
- previous inspection history
- success of the employer/employee health and safety committee

Cycles are constantly reviewed by the inspector and regional managers and adjusted upwards or downwards in accordance with changing situations within the workplace.

Our review of 130 companies covering 21 regions revealed 16 instances in 11 regions where the cycle was inconsistent. For example, one company with 38 employees was on the 'dormant' cycle (only visited in response to a problem or complaint) despite having had 19 accidents over the past year, including crushed fingers, lacerated arms and acid burns. Meanwhile, another company with three safety awards and no orders or concerns on file since 1982 was on a 12 month inspection cycle.

We have acknowledged that a simple review of inspection cycle assignment doesn't necessarily reflect the actual involvement of the Branch with a particular workplace. In addition to the cycle, the inspector may visit a workplace as a result of work refusals, complaints, etc.

Nevertheless, we recommended that the control over the assignment of inspection cycles be strengthened to ensure consistent application.

Inspection Visits

The Branch has established a system of priorities for visiting workplaces as outlined in the Branch Operations Manual. For instance, a fatality or critical accident is assigned a higher priority for inspection than a complaint or work refusal due to perceived unsafe work conditions. The Manual notes that the priorities can be altered when the inspection of a lower priority workplace in close geographical proximity results in the more efficient use of manpower.

Our review of inspection visits from four regions with a significant backlog of inspections during 1985 revealed that 16 out of 20 inspectors performed lower priority work while higher priority inspections were outstanding within the region. We noted that the performance of lower priority work ahead of higher priority work was not prompted by close geographical proximity.

We noted the following:

- **One company on a 12 month cycle was due for inspection in January 1985. Between July and October 1985 three eye injuries occurred at the company. However, prior to these accidents, an inspector had been in the area performing inspections on lower priority companies. As of January 1986 an inspection had not been performed in this workplace for two years.**
- **Another company on a six month cycle was two months outstanding when an employee was injured by an unguarded saw. An inspector had been in the area 9 days earlier performing a lower priority inspection. The Branch's internal accident investigation report contained the comment "this accident would have been prevented by greater Branch involvement and application of the internal responsibility system."**

As of October 1985 the Branch reported 7,865 outstanding cyclical inspections (20 per cent of the total inspections completed in fiscal 1984-85) with over 1,700 of these outstanding since 1983.

The inspectors may have had valid reasons for not following the priorities for conducting visits set out by the Branch. However, in light of the backlog of inspections we recommended:

- closer monitoring of inspection visits to ensure the sequence of visits is consistent with the system of priorities established by the Branch;
- all significant exceptions to the system of priorities established by the Branch be documented.

Need For Improved Enforcement

When a contravention of the Act or regulation is noted by the Branch, a work order is issued. Until November 1985, if this order was not complied with by the next visit, the inspector could issue a repeat order or, in serious instances, initiate a prosecution which could result in either a fine of up to $25,000, or imprisonment, or both. In the 1985 fiscal year, the Branch issued 50,643 orders of which 5,418 were repeat orders. The Ministry prosecuted on 91 occasions, resulting in fines of $144,000.

During our review we observed that during a 22 month period, Ministry inspectors issued a total of 21 work orders to one company for the absence of machine guards. These were considered similar type orders and not repeat orders. We were informed that repeat orders are issued only if the observed contravention is identical in all respects to the one observed on a preceding visit. Thus, an order for lack of machine guarding was not considered a repeat order if on the previous inspection a different machine had been found to be unguarded.

In order to assess how many orders represented such similar type orders (i.e. contraventions of the same section of the legislation), we selected 25 files and found six instances in six different regions where similar type orders were issued rather than being classified as repeat orders.

The November 1983 Division Prosecution Policy as well as the Operations Manual require that prosecution be considered where orders are issued for similar contraventions by the same employer.

We noted that while the Ministry did prosecute in 1984-85 for a number of repeat orders, only one of the 91 prosecutions in the 1985 fiscal year resulted solely (excluding accidents) from the issuance of similar orders. We further noted that over 80 of the 91 prosecutions were initiated only after an accident had occurred. It appeared evident to us that similar orders were not being considered for prosecution unless an accident had occurred in the workplace.

In an attempt to strengthen enforcement of the Act, the Minister introduced a new order policy in November 1985 whereby non-compliance with the original order would result in prosecution unless every reasonable effort had been made to comply. The practice of reissuing orders or writing repeat orders was expressly prohibited.

Occupational Health Branch

Background

The objective of the Occupational Health Branch is to provide consultation and assistance to the Industrial Health and Safety inspectors, and to employers and workers, in the recognition, evaluation and control of workplace health hazards in order to promote a healthy and safe working environment for Ontario's workers.

Of the approximately 170 employees in the Branch, there are 25 employees located at head office, 11 physicians, eight nurses and 19 hygienists located at seven regional field offices throughout the Province, 67 laboratory employees and 40 employees at six chest clinics. The field staff visit workplaces at the request of the Industrial Health and Safety Branch to identify potential health hazards. The laboratory analyzes air, blood and urine samples to detect the presence of hazardous substances. The chest clinics perform chest x-rays to monitor the health of lungs of workers who are exposed to hazardous substances.

Potential for Prescribing User Fees

According to the Ontario Manual of Administration, ministries are periodically required to review the services they offer to the public in order to identify those for which charges may be made. The Occupational Health and Safety Act states that "the Lieutenant Governor in Council may make regulations providing for and prescribing fees and the payment or refund of fees".

As part of our review, we assessed whether the Ministry was reviewing its services and its fee structure.

The Occupational Health Branch performs several services in its northern and southern chest clinics such as conducting x-ray and pulmonary function tests for physicians who conduct medical surveillance under two regulations of the Occupational Health and Safety Act. These regulations provide for ongoing medical examinations which may include clinical tests of a worker whose health is likely to be affected by exposure to designated substances such as lead, mercury and asbestos.

The northern chest clinics were established by the Workers' Compensation Board (WCB) in 1929 to address the chest disease hazards faced by hardrock miners. These clinics are operated by the Ministry of Labour. The current funding for these clinics through employer WCB assessments is specifically provided by the recently revised Workers' Compensation Act and amounted to approximately $800,000 in fiscal 1984-85.

The southern chest clinics were established by the Ministry of Health in 1948 to monitor the health of workers employed in a variety of industries in southern Ontario, where workers could be expected to be vulnerable to silica induced pulmonary diseases. From 1952 to 1974 the Ministry of Health charged a $1 fee for each chest x-ray taken. In 1973 the Ministry of Health decided to discontinue the $1 fee since the cost and difficulties of collection exceeded expected revenues. Cabinet concurred in the decision to provide the service free of charge by revoking the relevant charging regulation. In 1976 the southern chest clinics were transferred to the Ministry of Labour, which continues to provide chest clinic services free of charge.

The Ministry of Labour also operates a laboratory. One of its functions is to perform clinical tests requested by physicians who are conducting medical surveillance required by the designated substance regulations. The Ministry's laboratory was originally opened in 1921 by the Ministry of Health. Apparently no fees were ever charged by the Ministry for analytical services. In 1976 the laboratory became part of the Ministry's Occupational Health Branch, which has continued the practice of not charging a user fee.

From our review of the services performed by the southern chest clinics and the laboratory, we estimated that user fees established on the basis of cost reimbursement would generate recoveries in the range of $1-$1.5 million annually.

The Ministry's Internal and Management Audit group noted the issue of user fees in their 1983 report. We were advised by senior management that the Ministry's Strategic Policy Committee had considered a fee during a 1983 program review, and had unanimously decided user fees might deter full and timely compliance with the Ministry's toxic substances regulatory program. Therefore, user fees were rejected by the Ministry and the historical practice of providing services without charge has been continued.

RESPONSE

The Ministry responded to our report on July 31, 1986. A large portion of the reply dealt with matters already discussed and incorporated into our report. We have included in this section the Ministry's additional comments.

OCCUPATIONAL HEALTH AND SAFETY PROGRAM

Industrial Health and Safety Branch

Inadequate Identification of All Companies

"The audit report notes that the audit staff was made aware that two fatalities and eight critical accidents had occurred in work places not known to the IHSB. A field check of one of the work places in which a fatality occurred revealed that there had been no accident, complaint or work refusal prior to the fatality. This company has now been placed on a 36 month cycle, indicating that it is considered to be a work place where significant risks are not encountered. The work place in which the second fatality occurred will be referred to below."

"An IHSB review of the new employer computer registration data file in November 1985, indicated that there were some companies under IHSB jurisdiction which were not being registered. As the auditors had asked for a print-out of this file, it was decided to use the complete computer file on registered work places to fine tune the system. This was carried out in January/February 1986, and problem areas were identified and corrected.

"A further check during the early part of May 1986, showed that all new companies under IHSB jurisdiction were being placed on the IHSB file. There is some unavoidable overlap with construction companies and federal employers and self-employers which are also being caught. These companies will be screened out by IHSB field staff."

Inconsistent Inspection Cycles and Visits

Cycle Assignment

"The Division seriously questions whether it is appropriate to 'second-guess' the assigning of inspection cycles by Division staff experienced in matters of health and safety."

"There were also three instances of work places placed on a cycle 99 (dormant) following a file review which showed that no concerns had arisen or orders had been issued in the course of the last several inspections. The cycle 99 assignment was appropriate based on the information available to the inspector and manager at the time. The cycle was not shortened immediately following the occurrence of accidents, since there is an inevitable delay in processing the Form 7's, both in head office and in the field.

"Considerable control is already exercised in establishing the initial inspection cycles. Any subsequent changes to the cycle require the manager's approval, and are based on criteria which will ensure that work places which present the greatest risks will also receive the greatest scrutiny. It is the intention, however, to further enhance this system, through major alterations to the current computer system. This would permit 'on call' files to be reactivated by criteria based on WCB lost time accidents. In the meantime, IHSB managers will continue to annually review cycle assignments along with WCB accident frequency data to ensure that cycles are assigned in a consistent and appropriate fashion."

Inspection Visits

"The Division understands that, in investigating whether inspectors were adhering to inspection priorities, the audit staff reviewed the inspections conducted by individual inspectors against the work load in the region. This overlooks the fact that inspectors were asked to assist with the work load of other districts in the region as a result of vacancies, illnesses, vacations, etc."

"As for the first example raised, it should be noted that this establishment was inspected on April 25, 1986. Three orders were issued and were complied with by the compliance dates. The inspection cycle was reduced from 12 to 6 months.

"In the second example cited, the inspector who was in the area prior to the accident was conducting inspections assigned to him in relation to a vacant district, which did not include the workplace where the accident occurred. The work place where the accident took place was assigned to the only other inspector in the region.

"As a result of the concerns expressed in the Provincial Auditor's Report, regional managers will monitor more closely the weekly and outstanding reports filed by inspectors to ensure that priorities are being followed and that any deviations are explained and justifiable. In addition, the criteria for priority scheduling of visits will be reviewed. However, it must again be emphasized that the responsibility for health and safety lies with the employer who is responsible for the conditions in the work place and the work place parties. While the presence of an inspector and the issuance of orders will remove obvious hazards that may lead to an accidents, the key to a healthful and safe work place still rests with the joint responsibility system, and in the training of workers in the correct procedures for performing work activities."

Need for Improved Enforcement

"The Auditor's Report has drawn the conclusion… from a review of prosecutions *undertaken in fiscal 1984-85*. This provides absolutely no indication of whether or not prosecution was considered, but rejected, by administrative or legal staff, as an appropriate remedy to assure compliance. Without a careful and thorough review of the cases considered for prosecution, and those initiated but not yet completed, it is inappropriate for the Audit Report to draw the conclusion indicated… A full 56% of prosecutions referred to the Legal Branch since April 1985 do not involve accidents."

"It is also inappropriate for the auditor to review enforcement activity undertaken in 1984 and 1985 for offences which occurred during and prior to this period, against other than the policies and philosophy that applied at that time. Repeat orders were issued in 1983 and 1984 in accordance with then Branch policy."

"With the advent of the orders policy in November 1985 a new direction was established. There were no longer to be repeat orders or re-issued orders."

4.9

Cost Overruns, W. Darcy McKeough Floodway Project, Conservation Authorities and Water Management Branch, Ministry of Natural Resources

The Conservation Authoritites and Water Management Branch of the Ministry encourages the conservation, development and utilization of water and related land resources by providing funding, procedural guidelines, management and planning direction to Conservation Authorities throughout the Province.

In 1985, expenditures by Conservation Authorities totalled approximately $95 million, of which the Province contributed $37 million (Vote 2302, Item 1).

SUMMARY

OBSERVATIONS

During our review of the Branch's Conservation Authorities and Water Management Activity we observed the following:

- **The total cost of the W. Darcy McKeough Floodway Project had escalated from an original estimate of $10.4 million in 1976 to $36.3 million in 1986. In our opinion, a significant portion of the increase was due to poor planning of the Project from the start.**
- **The Project's flood relief capacity did not measure up to original expectations.**

COMMENTARY

General

Conservation Authorities are responsible for the provision of public safety through programs designed to minimize the risks to life and property from water related hazards such as flooding and erosion.

There are 38 Conservation Authorities in Ontario with 33 in southern Ontario and 5 in northern Ontario. Each Authority is an autonomous corporate organization established under the Conservation Authorities Act.

Conservation Authorities represent a partnership between the local member municipalities and the province of Ontario. The Authorities' programs are funded by municipally-raised levies, grants from the Province, federal funding for special programs, private donations and revenues raised through Authority operations.

Provincial funding is typically provided for specific programs and projects. Of the $37 million granted to Authorities by the Conservation Authorities and Water Management Branch in 1985, 80 per cent was designated for specific capital projects. The balance was allocated for administrative costs which, over the years, has consistently approximated 20 per cent of the grants provided by the Province.

W. Darcy McKeough Floodway Project

Wallaceburg and the areas surrounding it have experienced floods more than fifteen times since 1892. Flooding often results when heavy rainfall and snowmelt runoff in the Sydenham River watershed combine with ice breakup and jamming. Particularly severe floods occurred in 1947 and 1968, causing extensive damage to Wallaceburg and other flood prone communities.

During the late 1960's and early 1970's, the responsible Conservation Authority investigated a number of alternatives to alleviate these flood problems, including the diversion of flood waters from the North Sydenham River to the St. Clair River.

The Authority finally decided that a floodway control facility was required. In June 1984, the W. Darcy McKeough Floodway Project was officially opened to provide protection for Wallaceburg and surrounding areas from flooding.

The completed Project is expected to cost approximately $36.3 million. At the end of March 1986, the cost incurred amounted to $25.4 million, as follows:

	Costs Incurred to March 1986 ($ million)
Dam and Diversion Channel	14.2
Land Acquisition	7.0
Engineering Fees	2.2
Other Costs	2.0
	25.4

Of this total, the Province contributed $24.2 million (95 per cent) and the benefiting municipalities $1.2 million.

Escalation of Costs Due to Poor Project Planning

We found that the total cost of the Project had escalated from an original estimate of $10.4 million in 1976 to $36.3 million in 1986. In our opinion, a significant portion of the increase was due to poor planning of the Project from the start. In addition, $9.1 million was attributed to inflation, the effects of which had not been considered in the original estimate.

Of the original $10.4 million approved by the Ministry for the Project in 1976, $7.9 million was granted for the design and construction of the dam and diversion channel.

In April 1980, these estimated construction costs were revised from $7.9 million to $14.6 million. Costs were further revised in January 1983 to $26.3 million to include improvements to upstream roads and bridges.

Furthermore, the original grant had allocated $2.5 million to land acquisition and flood easements. However, in May 1981, these costs were revised from $2.5 million to $5 million. This was further revised to $10 million in January 1982.

Included below are the details of some of the factors contributing to the escalation of the costs of the Project.

Time Taken in Determining Funds Needed for the Upgrading of Upstream Roads and Bridges

The October 1976 ministerial approval of $7.9 million for the construction of the dam and diversion channel included an amount of $100,000 to be used for upgrading upstream roads and bridges, which would be flooded when the gates of the dam were closed. In March 1980, the Authority requested the Ministry to increase this amount to $750,000. In October 1982, the Authority submitted a revised estimate indicating that this upgrading would now cost $6.1 million.

The Ministry, however, did not feel confident that $6.1 million would suffice. It indicated that in order to meet provincial standards the upgrading of roads and bridges would require additional lands not identified in the Authority's revised submission, and in particular, certain lands upstream of a highway. By the time of our audit, approved costs for upgrading roads and bridges totalled $10 million.

Time Taken in Determining the Upstream Land to Be Aquired

In their preliminary engineering study completed in August 1971, the consulting engineers estimated that approximately 3,300 acres would be flooded once the dam was constructed and recommended that easements be obtained on these lands. In January 1975, however, ministerial approval was obtained for only 2,600 acres.

In July 1977, the Ministry and Authority revised the boundaries for the amount of upstream flood easements to be acquired and agreed that only 1,327 acres were required for easements.

In November 1978, the Ministry decided to again revise the boundaries to include all landowners affected by the dam. This brought the amount of upstream land required to 2,545 acres, or approximately the same number of acres for which ministerial approval had originally been obtained in January 1975.

The time taken in coming to a firm decision on the amount of land needed resulted in significantly increased land costs.

Time Taken in the Selection of the Dam Control Gates

In their preliminary design report dated April 1978, the consulting engineering firm recommended two control gates in the dam structure. In November 1980, over two and a half years later, the Ministry, however, was still of the opinion that one control gate was sufficient and would result in cost savings of $800,000.

In May 1981, the Authority was still objecting to a single gate, as they felt it would not allow fish migration or boat passage and would cause higher upstream water levels with the gates open.

In August 1981, the then Minister resolved the matter by stating that in the interest of all concerned, the structure would contain two gates for flood control purposes.

It took over three years to resolve the matter of the gates from the time the consulting engineering firm recommended the two control gates. We noted that the Conservation Authority informed the Ministry that the delay in deciding the number of gates was costing approximately $1,000 a day. While we had no way of substantiating this figure, if accurate, we estimated that this delay resulted in additional costs in excess of $1 million over the period in question.

In our opinion, all of these significant decisions should have been made during the planning stages of the Project and not during its construction.

Project Flood Capacity Less Than Expected

In their pre-design report dated April 1978 and prior to the construction of the Project, the consulting engineering firm indicated that the dam and diversion channel on the North Sydenham River would direct 45 per cent of the water away from Wallaceburg. In January 1984, when the Project was substantially completed, the consulting engineering firm submitted a revised report indicating that the dam and diversion channel on the North Sydenham River would direct only 25 per cent of the water away from Wallaceburg.

RESPONSE

The Deputy Minister replied to our comments and recommendations on October 2, 1986.

Escalation of Costs Due to Poor Project Planning

"The report is correct in stating that the total cost of the project has escalated from $10.4 million in 1975 to $36.3 million as of 1986. However, the most significant reason for the phasing of the project was availability of funding, rather than inadequate planning.

"The original approval of the project in 1975 acknowledged that the best estimate of the total cost was $10.4 million in 1975 dollars. That approval was for the technical concept of the project based on the plans and descriptions submitted by the Conservation Authority. It was not a funding allocation. Further technical approvals were given in subsequent years as the specific details and scope of the project were modified. In each case an updated cost estimate was acknowledged reflecting those changes and the effects of inflation since the original approval. Funding must be granted each year with requests of all 38 authorities prioritized within the amount allocated by the Legislature. In the calendar years shown, the funding available for this project was:

1975	$ 20,572	
1976	328,964	
1977	669,339	
1978	1,452,897	
1979	2,375,647	
1980	6,326,344	
1981	2,807,116	
1982	2,111,489	
1983	6,292,500	
1984	785,102	
1985	885,030	
1986	250,000	(proposed)
	24,305,000	

"This is the largest capital project ever undertaken within the Conservation Authorities program. Its current cost estimate of $36.3 million is almost twice the total capital funding allocation of $19.6 available to Ontario's 38 Conservation Authorities in 1986/87. Important resource management projects and programs were underway at other Conservation Authorities across the province. Because of the adverse impact on these other projects, funding levels for the floodway project could not be increased and the project could not have proceeded any faster than it did, without a concomitant increase in overall funding for the Conservation Authorities program.

"Undoubtedly, inflation played a major role in escalating the cost of the project from the estimated cost in the approval of technical principles in 1975 to the actual cost to date. The effect of inflation was, to a large extent, inevitable, given the length of the time needed to complete the project. In retrospect, with availability of funding being the governing factor that it was, the project could not have proceeded more rapidly than it did."

Time Taken in Determining Funds Needed for the Upgrading of Upstream Roads and Bridges

"The cost of upgrading upstream roads and bridges increased because the design criteria changed. Originally it was felt that the project would have minimal effect on upstream roads and bridges and that any modifications that may have been necessary could have been through the continuing road and bridge maintenance programs carried out by other responsible jurisdictions.

"In March 1980, preliminary information on the upstream reservoir area provided by the consulting engineers indicated an increase in cost to $750,000. By October 1982, a more comprehensive examination of the condition of the upstream roads and bridges and the impact of the project on them prompted the Conservation Authority to submit a revised estimate of $6.1 million.

"In reviewing this estimate, the Ministry found that additional funds would be needed to meet provincial standards in upgrading roads and bridges. Accordingly, an amount of $10 million was approved in January 1983. Funding allocations have not been adequate to implement this phase of the project and to date only a small amount of work has actually been completed."

Time Taken in Determining the Upstream Land to Be Acquired

"Land requirements changed because the storm criterion of the floodway design was changed. However, it was subsequently decided to proceed with a higher degree of flood protection and acquire all the lands affected by the dam. The timing of these decisions did not materially delay the acquisition of the land. Acquisition could not have proceeded more rapidly than it did because of availability of funding."

Time Taken in Selection of the Dam Control Gates

"While this delay may appear to be excessive, it is not unusual for delays of this nature to occur in the timing of construction for projects of this magnitude. The amount of land flooded by the project, the extent of disruption to roads and services within the reservoir and the type of flood control gates for the dam are all features that had to be examined meticulously, particularly since failure of the dam could result in loss of life and tremendous damage to property.

"While any delay is bound to incur costs, we seriously question the unsubstantiated figure of $1000 a day. However, construction of the dam was not delayed by the time taken to resolve the matter of the gates. The primary reason for the elapsed time was lack of available funding. The decision to proceed with two gates was made in August 1981 but the actual construction of the dam did not begin until 1983. Even if all these decisions had been made in 1976, the pace of available funding would have made it impossible to accelerate construction of the project."

Project Flood Capacity Less Than Expected

"The Ministry introduced a revised budgeting system in 1983 that requires Conservation Authorities to submit a detailed project file that describes the technical aspects, effectiveness and any possible alternatives to a proposed project. The Ministry intensively reviews the project files and all options are carefully evaluated. Projects are then prioritized to ensure that the most urgent and cost-effective proceed first. Large scale projects are now also subject to review of alternatives prior to implementation.

"In this instance, which dates back to the 1960's, the Conservation Authority retained consulting engineers to review methods of providing flood protection for the Towns of Dresden and Wallaceburg. Looking at the hydrologic and hydraulic calculations, for the project back in the 1960's and 1970's, these calculations were performed without the benefit of more sophisticated and powerful computer models and programs that are now available. Nevertheless it should be noted that various alternatives were evaluated and adequate analysis was carried out to arrive at the decision to construct the W. D. McKeough Floodway Project.

"There can be no question regarding the effectiveness of the floodway as a flood control project. Each year since 1984, even before the dam and control structure were fully completed, the project has been operating. In 1984 approximately 30,000 acre-feet of water and in 1985 about 60,000 acre-feet of water flowed through the diversion channel directly to the St. Clair River, thus providing flood protection to the Town of Wallaceburg."

4.10
Economies Warranted re Staffing and Technology Utilization, Guaranteed Income and Tax Credit Branch, Ministry of Revenue

This Branch (GITC), with a staff of 178, is responsible for the administration of the Ontario Guaranteed Annual Income System, (GAINS), the Ontario Tax Grants for Seniors (OPPTA), and the Ontario Tax Credits Program (OTC).

Expenditures relating to GAINS and OPPTA for the 1986 fiscal year were $131.5 million and $351.2 million respectively (Vote 902, Item 10). OTC totalled $276.8 million for 1984, the most recent tax year reported.

SUMMARY

SCOPE AND OBJECTIVES

Our audit assessed key management systems and controls including Branch efficiency.

CONCLUSIONS AND FINDINGS

We were generally well satisfied with management systems and controls and with management's regard for efficiency. As the administration of their grant programs matured and system improvements were introduced, significant staff reductions had occurred while maintaining an adequate level of service to grant recipients. We were informed that further efficiency improvements were planned. However, we had some concerns including:

- **Reductions in processing staff had not been accompanied by appropriate reductions in the management and support staff.**

- **Up to $1.7 million could be saved annually by introducing electronic funds transfer technology to process payments for the GAINS and OPPTA programs.**
- **We also observed there was unlimited access to critical EDP information files such as Federal Income Tax data of all taxpayers in Ontario and the GAINS Master File.**

COMMENTARY

Background

- The Ontario Guaranteed Annual Income System (GAINS) was introduced to guarantee a minimal level of annual income to qualifying Ontario senior citizens. GAINS payments were made to approximately 200,000 Ontario pensioners in the year ending March 31, 1986.
- Ontario Tax Grants for Seniors (OPPTA) provides annual property tax grants (PTG) to a maximum of $500 per household to lessen the impact of municipal and school taxes paid by seniors. This program also provides an annual sales tax grant (STG) of $50 to lessen the sales taxes paid by all Ontario seniors. OPPTA grants were made to approximately one million Ontario pensioners in the 1986 fiscal year.
- Ontario Tax Credit (OTC) provides tax credits for property tax, sales tax and political contributions paid by Ontario residents under 65 years of age and is administered by Revenue Canada, Taxation on behalf of the Province.

A recent consulting study of the Branch's organization structure resulted in a realignment of responsibilities. As of February 21, 1986, the Branch organization was comprised of the Office of the Director (2 staff), and three sections: Analysis and Support (54), GAINS Operations (31), and OPPTA Operations (91). The Director reports to the Assistant Deputy Minister, Tax Revenue and Grants Program. All 178 staff are located in the head office of the Ministry in Oshawa.

Operational expenditures for the Branch were $9.2 million, of which approximately $6.1 million was spent for salaries, wages and employee benefits.

Further Reductions in Management and Support Staff Possible

Although significant reductions had occurred as opportunities arose, we felt that further reductions were possible. **Our review of the Branch's staffing changes over the past few years indicated that reductions in processing staff had not been accompanied by appropriate reductions in the management and support staff.**

At the time of our audit the Branch had about three management (M) and support (S) staff for every two processing (P) staff. A more detailed breakdown, based on discussions with section managers, is as follows:

	M	S	M+S	P	Total
	#	#	#	#	#
OPPTA Operations	31	12	43	50	93
GAINS Operations	8	5	13	18	31
Analysis and Support Section	18	36	54	-	54
Branch Total	57	53	110	68	178

Management staff includes all managers and supervisory staff down to the group leader level. Support staff includes all those who do not actually perform the processing of benefit payments under the programs.

We reviewed staffing levels from June, 1983 to February, 1986, a relatively stable period in terms of work load and organization structure. We noted the following:

- Overall, staff level for the Branch had declined significantly from 245 to 178 during this period. Sixty three per cent of this reduction had come from the processing staff positions as many administrative problems were rectified and system improvements were introduced.
- In the OPPTA section, staff had been reduced over the review period by 31. However, 30 of the deleted positions were from the processing staff.

Prior to the commencement of our audit, management announced a branch wide "productivity review". The review objective was "to achieve a staff reduction target of ten per cent per annum over two years".

We supported the Branch efforts to reduce the number of staff, and recommended that this review also address the proportionate level of management and support staff.

Greater Economies Possible in the Use of Electronic Funds Transfer Technology

Based on information provided by the Ministry of Government Services, we estimated that $1.7 million could be saved annually if the GAINS and OPPTA programs paid recipients using a direct deposit system instead of issuing cheques. We acknowledged that the extent of savings actually realized would depend on the number of recipients willing to participate in the system.

In the 1980 and 1981 fiscal years, the Branch proposed to design a pilot project in one or two medium size cities to provide a practical test of a generalized direct deposit system for expansion to the entire GAINS program. At the time of our audit, this pilot project had not been started.

We recommended that the Branch reassess the costs and benefits of this method of payment for both grant programs.

Unauthorized Access to Important Files Possible

The GITC Branch identified 47 computer files associated with the OPPTA and GAINS systems as being critical to the successful delivery of the programs. These 47 files were tested for protection against unauthorized access. **We found 45 of these files were not protected against unauthorized access.**

Included in the unprotected files was the GAINS Master File and a file which contained confidential income tax information on all taxpayers in Ontario. The data on the latter file was made available to the Ministry subject to the restrictions in the Federal Provincial Tax Collection Agreement. This agreement in short states that the information on these files must not be communicated to any person not entitled to that information. By the end of the audit these two files had been protected but the other 43 had not.

Computer Identification Codes Not Controlled

A computer identification code is a special code by which a person can gain access to a computer system. These codes are used by staff to access the OPPTA data base via computer terminals.

There were 350 computer identification codes in the Branch, of which 167 were not being used at the time of our audit. We found that only 2 of these unused codes had been cancelled to prevent the previous user from gaining access to the OPPTA data base. In addition, we were able to successfully access the OPPTA data base by using 30 of the remaining unused identification codes. These inadequacies were pointed out to the Branch and were immediately rectified.

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 17, 1986.

Further Reductions in Management and Support Staff Possible

"The branch believes the ratios of management and support staff to processing staff calculated by the auditors, are misleading because:

1. GITC is primarily involved in exception-handling.

   Many of the more standard clerical operations associated with the delivery of OPPTA and GAINS, are performed by other branches in the Tax Revenue and Grants Program (TRGP). Examples include the vetting and addressing of Property Tax Grant applications by the Taxation Data Centre Branch (TDC), data entry performed by TDC, the receipt of enquiries by Taxpayer Services Branch (TSB) and the response to basic enquiries by TSB.

   The processing of exceptions requires a greater degree of management intervention. The effect of this division of responsibilities is to increase GITC's management to processing staff ratio relative to what that ratio would be if GITC was responsible for all aspects of GAINS and OPPTA program delivery.

2. 'Management staff' and 'support staff' have been defined too broadly by the auditors, resulting in a definition of 'processing staff' which is much too narrow and therefore rather misleading.

   In the GITC Branch, a large number of so-called 'support staff' are engaged in activities such as input/output, filing and word processing, which are directly supportive of benefit payment processing and should more properly be regarded as part of the processing stream. Similarly, the Branch views it as inappropriate to regard group leaders at the clerk 5 general level as management staff.

   When the staff breakdown table in the Audit Report is adjusted to reflect this broader definition of processing staff, it appears as follows:

	M **#**	**S** **#**	**M+S** **#**	**P** **#**	**Total** **#**
OPPTA Operations	12	12	24	69	93
GAINS Operations	5	2	7	24	31
Analysis and Support Section	17	19	36	18	54
Branch Total	34	33	67	111	178

"It should be noted that a significant number of support staff is involved in maintaining and enhancing Branch EDP systems. Constant enhancements to these systems are accorded a high priority, and have yielded significant improvements in productivity, which the Branch has made in recent years and are expected to continue to contribute to Branch efficiency gains in the future.

"The Audit Report recognizes that the Branch has been reducing its staffing levels and had commenced a productivity review project prior to the audit, to facilitate the continuation of that effort. The productivity review will address management and support as well as processing staff requirements."

Greater Economies Possible In The Use Of Electronic Funds Transfer Technology

"Although the report provides no details of the $1.7 million saving, we assume that it relates to possible postage savings.

"Since payment advices would be expected by seniors on a direct deposit system, the savings would be largely illusory. The bulk of the 'savings' to the Ministry of Government Services in postage on cheques would be paid out by the Ministry of Revenue in postage on payment advices.

"As the Audit Report recognizes, the success of this initiative would depend largely on the 'take up rate' of the direct deposit option by clients. A pilot project was proposed as a means of assessing what this rate might be. However, such a pilot would be costly. Management is not convinced that the take-up rate among the seniors population will be high enough to justify proceeding, even with the pilot."

Unauthorized Access to Important Files Possible

"The Ministry agrees that PROVDATA and GAINS master files should be RACF protected and this protection is now in place.

"A work request has been sent to the Information Technology Division to implement automatic RACF protection, which became available earlier this year, for all sensitive files. This protection is now in place for all GAINS datasets, and will be implemented shortly for all OPPTA files."

Computer Identification Codes Not Controlled

"A procedure has been put in place whereby unused computer identification codes are deactivated, to prevent unauthorized access to the OPPTA data base."

4.11
Need for Increased Resources and Efficiencies, Corporations Tax Branch, Ministry of Revenue

At $2.6 billion, or 9.9 per cent of budgetary revenues, tax on corporations provided the third largest source of tax revenue to Ontario in the 1986 fiscal year. The Ministry of Revenue's Corporations Tax Branch (CTB), with a staff of 347, is responsible for the collection and administration of this revenue. Branch expenditures for the year ended March 31, 1985, totalled $13.7 million (Vote 902, Item 7).

SUMMARY

SCOPE AND OBJECTIVES

Our audit included an examination and assessment of the Branch's audit arrangements, planning and clerical activities and compliance and collection procedures.

CONCLUSIONS AND FINDINGS

Audit Arrangements

Audit arrangements were unquestionably inadequate.

- **Only .7 per cent of the taxroll's approximately 300,000 active corporations were audited. Such low coverage cannot be justified considering that auditors contribute an average of $1,000 in tax revenues each productive hour.**
- **Audit selection procedures failed to ensure that corporations most in need of audit were being selected.**
- **The Province may forgo revenues of as much as $2.2 million annually because audit backlogs are so significant that the four year limitation on reassessment will lapse.**
- **Supervision of field auditors was inadequate and did not ensure audit quality and auditor productivity.**
- **If the amount of audit travel time eligible for compensating time off were reduced by one hour per day, $15 million annually could be added to provincial revenues.**

Planning and Clerical Activities

We found that the efficiency of planning and clerical activities could have been improved.

- **Revenues could be increased by as much as $30 million per annum through automation of time consuming clerical tasks.**

Compliance and Collection Procedures

We were satisfied with the Branch's ability to identify late filers and unpaid taxes. However, both taxes outstanding and unpaid taxes written off have increased significantly in recent years. We were concerned that the collection procedures observed during our audit will cause these increases to continue.

OVERALL CONCLUSION

Branch management has directed available resources to those activities deemed essential. With a few notable exceptions, it has conducted these activities with reasonable regard for economy and efficiency. However, and of greater concern, important areas in the Branch's operations have been neglected because of insufficient resources.

In our opinion, a more substantial investment in technology and auditors is needed for the Corporations Tax Branch to obtain greater returns in tax revenues for the Province.

COMMENTARY

Background

Revenue collected under the Corporations Tax Act consists of:

— a tax on the taxable income of corporations resident in Ontario and the taxable income earned in Ontario by non-resident corporations (currently 15.5 per cent);

- a tax on the taxable paid up capital of the above corporations (currently .3 per cent, except for special flat rates of $50 and $100 for corporations having taxable capital of less than $100,000 and $1,000,000 respectively);
- a premium tax payable by insurance companies based on the value of premiums written on persons resident and properties situated in Ontario (at variable rates currently ranging from ½ to 3 per cent).

The Act is administered by the Corporations Tax Branch (CTB) of the Ministry. The Branch consists of 347 staff, located in Oshawa, and is organized into four major functions:

- audit (143 staff);
- operations, including collections, accounting operations, taxroll maintenance, filing and word processing services (167 staff);
- system planning development and control (26 staff); and
- legislation (11 staff).

Branch operations are supported by a large and complex computer system which is used for major activities such as assessing, audit selection and following up on delinquent taxpayers.

The Branch prides itself on the fact that it has been able to avoid the adverse publicity associated with Revenue Canada in 1983-84.

To administer the Corporations Tax Act with relatively modest resources, CTB relies heavily on the self-assessment system. This means the taxpayer has primary responsibility for determining the amount of taxes owing and for remitting these taxes on a timely basis. The success of self-assessment depends on a high level of voluntary compliance by taxpayers, compliance fostered by the belief that the interpretation and application of the Act is fair and evenhanded.

The long term success of this system depends on the Branch's ability to inform and assist taxpayers, and to perform a sufficient number of audits to identify non compliance situations. In recent years management has focused attention on the former.

Audit Arrangements

Desk Audit Unit

All processed returns are included in a bi-weekly "audit selection listing" which ranks the auditability of individual returns. Rankings are based on a computer scored points system as well as manual codes entered by screeners based on their brief review of the return.

The audit selection listing becomes the primary source of selecting tax returns for "discretionary desk audits", a task assigned to three desk audit units employing 31 staff. For the 1985 fiscal year such audits resulted in $6 million in additional revenues.

Another desk audit team, consisting of 12 staff, is assigned to the performance of "non discretionary" audits, which include:

- reviewing copies of all federal and other provincial Notices of Reassessment received by CTB for potential Ontario reassessment;
- reviewing returns where there are losses in the current year which are applied to reduce taxes previously paid; and
- other adjustments requested by taxpayers.

There were approximately 20,000 such audits completed during the fiscal year 1984-85, resulting in $22.4 million in additional revenues.

Field Audit

The field audit group has traditionally been the smaller of the two units. It consisted of just eleven auditors as late as October 1982. However, since that time, under a program to increase audit revenues and taxpayer compliance, the group has been expanded to 63 auditors. As anticipated, this increased activity has resulted in significantly more reassessments, with audit revenues increasing from $16.4 million in 1982-83 to $46 million in 1984-85.

A field audit is normally performed by one auditor at the taxpayer's premises and is usually restricted to larger corporations. Corporations are selected for field audit on the judgement of field audit managers.

Inadequate Audit Coverage

Audit coverage has been unquestionably inadequate, either to maximize tax revenues or to encourage voluntary compliance from all taxpayers.

During 1984-85, CTB performed 769 and 1,238 discretionary field and desk audits respectively, representing less than one per cent of the taxroll's approximately 300,000 active corporations. Planned coverage for the same period was 1.5 per cent, a low target when compared to Revenue Canada's 4 per cent.

Because federal and Ontario tax legislation is largely compatible, the Branch relies to some extent on Revenue Canada's audits. However, certain aspects of the provincial legislation, such as tax on capital and provincial allocations, are not covered by Revenue Canada audits. Furthermore, federally initiated Ontario reassessments have decreased from $30.1 million in 1983-84 to $22.4 million in 1984-85, and totalled only $4.3 million for the first five months of 1985-86. Since federal audit coverage in Ontario has been declining it has become imperative that the Branch step up its audit efforts.

Audits undertaken have tended to concentrate on larger taxpayers in order to maximize the readily measurable direct audit revenues. This, however, precludes a large proportion of the taxroll from audit, and hence fails to meet the Branch's objective of encouraging voluntary compliance on a wider scale.

Although the degree of voluntary compliance is not easily measurable, the resulting revenue contribution is much greater than from audit induced revenues. Of the $2.2 billion in corporation taxes collected in fiscal 1984-85, only $52 million or 2.4 per cent was generated by discretionary audit activities.

Our findings suggest that auditors have primarily sought to meet annually budgeted dollar amounts, at the expense of planned audit coverage (1.5 per cent of all taxable corporations). In fact audit coverages have consistently not been met.

Increased Audit Resources Needed

From a strictly financial standpoint, audit resources should be increased so long as the incremental recoveries exceed the increased cost of performing more audits.

A review of branch statistics revealed that over the last three years, **auditors contributed an average of $1,000 of tax revenue per productive audit hour. Given the relatively large recovery per audit hour and the current very low audit coverage of the taxroll, each additional auditor could contribute as much as $1 million annually to provincial revenues.**

For the past several years, because of the increasing work load on account of a growing taxroll, and the government's general constraint program, the Branch has directed existing audit resources from discretionary audit functions to non discretionary tasks. In other words, more auditors have been reassigned to tasks such as processing returns and reviewing Reassessment Notices. Therefore, fewer auditors have been available to generate revenue for the Province. For example, for the 1985 fiscal year, desk audit staff normally assigned to discretionary audits were reassigned such that 70 per cent of their available productive time was spent assisting with non discretionary audits and processing returns. Such reassignments cost the Province audit revenues of approximately $13.3 million in 1984-85. A similar shifting of audit staff time has occurred in 1985-86.

Weak File Selection Procedures

CTB has not ensured that the corporation tax returns most in need of audit are being audited.

Our observations and comments with respect to these file selection procedures were as follows:

- The criteria used for selecting potential audits serve primarily to identify corporations with high gross revenues, total assets and taxes payable, rather than corporations with known or suspected instances of non compliance. **Further, by limiting audit coverage to large taxpayers, sufficient information isn't gathered to determine whether specific industry sectors or geographic areas are more prone to non compliance.**
- The combined time allowed for processing and screening returns is approximately eight minutes per return. Of the eight minutes allowed, approximately four minutes are spent keying information. During the remaining four minutes, the screener must review the tax return and all supporting schedules, determine compliance with existing legislation and generally assess the audit potential of the return.

  Given the time limitation imposed in the screening function, it was not surprising to find that it had not been effective in identifying those returns most in need of audit.

  Furthermore, the system in place required that returns be screened twice in order to effectively determine audit potential. During the period December 16, 1983 to July 1, 1985, screeners identified 260 returns as requiring "urgent and pressing attention". However 44 per cent were rejected from audit by unit supervisors, while 15 per cent warranted only limited reviews according to supervisors.

  Efficiency could be improved by having one effective screening of the returns. To accomplish this:

  - more time should be allowed to properly screen a return;
  - guidelines should be provided to ensure appropriateness and consistency in screening decisions; and
  - screeners should be very well trained.
- There has been no subsequent monitoring of the reasons for rejections of returns identified by screeners as having audit potential. Therefore, management has been unable to determine whether files are rejected solely for reasons of low audit potential rather than other considerations such as excess files awaiting audit. We felt such information could be useful in identifying weaknesses in the screening function and could be used to refine the selection criteria and hence improve screening effectiveness.

  Interestingly, 36 per cent of the 1,238 returns desk audited during 1985 fiscal year resulted in no change to taxes payable. A similar percentage of no change audits was experienced during the first seven months of 1986 fiscal year. Given that selection procedures were intended to identify returns with recovery potential, effectiveness of the procedure was questionable.

We also recommended that procedures for selecting files for audit be improved by:

- including more factors of compliance risk in selection criteria; and
- having a post-assessment process to monitor the effectiveness of screening activities.

Significant Audit Backlogs

The backlog of returns in the Branch selected for audits was so significant that we felt the ensuing delays may have resulted in foregone revenues, and could cause undue hardship to taxpayers.

As at August 30, 1985, there were 8,800 non discretionary audits awaiting processing. This amounted to a backlog at normal production volumes of approximately eight months.

As of October 25, 1985, the most recent Audit Selection Listing from which files were being selected for discretionary desk audits was dated December 16, 1983, a delay of almost two years. We found significant delays, averaging approximately eight months, between the time a file was selected for desk audit and the time it was completed. Similar delays, averaging approximately three years, had occurred in the field audit unit.

An internal branch report published in October 1985 indicated that with existing resources, an increasing amount of discretionary audit resources will have to be reassigned to non-discretionary activities through 1987-88. Other things being equal, only a token number of discretionary audits will be performed during that time. **The report stated that at least $2.2 million in potential audit recoveries could become statute barred during each year, just in those files selected for audit.**

Therefore, the delay between filing and auditing a return will only increase from its current unacceptable high level.

From the Branch's point of view, audit delays are not critical so long as the audit is eventually performed and the resultant reassessment is issued, because it is entitled to interest at prevailing rates from the time the taxes were due to the time payment is made. However, the backlog is a very real concern if it is likely that some audits will not be performed at all or if some returns will become statute barred.

Better Supervision of Field Audit Staff Needed

As mentioned previously, the field audit unit has grown rapidly from eleven auditors and one manager in October 1982 to its current complement of 63 auditors and 3 managers. However, the organizational structure has not developed at the same time to permit effective supervision and control of field audit staff.

With 21 auditors reporting to one audit manager, it has been difficult to control auditor activity. Until very recently, auditors worked entirely alone regardless of their experience and the complexity of the audit. No supervision was provided in the field.

Auditors submit monthly time reports allocating their time to individual audit files as well as to various other activities. Because there has been no field supervision, time reporting has largely depended on the honour system.

Time records for the 1985 fiscal year indicated that field auditors spent their time as follows:

	%
At taxpayers' premises	39
Travel to taxpayer premises	11
In field time	50
Audit related time in office	22
Administration, leaves, etc.	28
	100

The Branch's audit manual requires that field auditors spend a minimum of 60 per cent of their total available time in the field. However, field auditors have spent only 50 per cent of their time in the field.

By union agreement, auditors are compensated for all travel time incurred between their home and a taxpayer's premises. To the extent that an auditor's travel and work time exceeds 7¼ hours per day, such excess time becomes compensating time, which the auditor may take off with pay at a later date. It has been the practice in the Branch for auditors to take such time off without prior management approval. Alternatively, auditors in the non management classification may be paid for compensating time at the auditor's regular rate of pay.

Although it is reasonable to compensate auditors for excess travel time, we questioned the reasonableness of compensating auditors for all travel time. For example, some ministries currently compensate auditors for any travel time in excess of one hour, recognizing the some time must be spent travelling to and from work regardless of location. Such a policy is also common for audit functions in the private sector.

The payback of negotiating such a policy could be significant. **Using current revenue recovery rates, if auditors were only compensated for travel time in excess of 1 hour per day, direct audit recoveries would increase by as much as $15 million per year.**

We recommended that the Branch improve the level of supervision of field auditors and that the ministry review the reasonableness of compensating auditors for all travel time.

Planning and Clerical Activities

Automation

A number of time consuming operations which are performed manually could be automated to permit reallocation of resources to revenue producing activities such as audit and collections. Two such time consuming operations are:

- calculations of applicable interest and penalties: and
- the issuance of provincial reassessments based on Revenue Canada notices of reassessment.

These activities engage approximately 30 full time positions. We understand that management plans action in both areas but the feasibility of the second application has not yet been demonstrated.

Any redeployment of staff from routine tasks to discretionary audit activities should provide more than enough revenue to offset the cost of automation. If, for example, all 30 positions were converted to fully productive desk audit positions, the additional annual revenue generated could reach $30 million.

Management has estimated that to improve their corporation tax computer system would cost approximately $5.8 million. Another report, prepared by the Revenue Management Committee, stated that Branch productivity could be enhanced by as much as 25 per cent through increased automation.

Other Revenue Opportunities

Our review of filing and planning activities also revealed opportunities to increase efficiency and thereby increase revenues generated for the Province. Specifically, we recommended that management:

- convert excess filing resources to revenue generating activities such as collections and audit;
- improve the budgeting and monitoring of planning projects; and
- better coordinate Branch planning efforts with those of the Ministry.

Compliance and Collection Procedures

As at September 6, 1985 total Branch receivables were $148.3 million. Of this, $120 million was owed by 930 taxpayers and $90 million of it had been outstanding for more than 75 days.

Our review of Branch procedures and controls to identify and follow up both delinquent filers (compliance) and unpaid taxpayers (collection) revealed that those controls and procedures were adequate. However, both the number of delinquent accounts and the value of accounts receivable and accounts written off have increased significantly in recent years. For example, receivables outstanding over 60 days increased from approximately three per cent of total revenues in 1980-81 to approximately five per cent in 1984-85, while accounts written off increased from 1.5 per cent ($1.3 million) of receivables to five per cent ($6 million) during the same period. Although some of this increase relates to a policy change permitting faster write-offs of overdue balances, at least some of the increase can be attributed to less effective collection practices.

Accounts under $500 Not Pursued

At the time of our audit the Branch did not actively pursue accounts less than $500. We were informed by management that there had been insufficient staff to pursue accounts below this amount.

From the standpoint of economy, accounts should be pursued for payment so long as the cost of doing so is less than the amounts ultimately collected.

RESPONSE

The Deputy Minister responded to our comments and recommendations on June 16, 1986.

Audit Arrangements

Inadequate Audit Coverage

"On February 6, 1986 the Deputy Minister of Revenue made a proposal to Management Board of Cabinet. The thrust of his proposal for funding, which was approved on February 26, 1986, was to increase audit coverage in a two stage process. Initially, additional auditors are being hired to staff an expanded field audit function. Stage two involves maximizing the productivity and coverage of all auditors with the Ministry's continuing commitment to technology. Systems and applications for the use of 'lap-top' computers are currently under development. Funding has been approved for field trials of these systems. Together, these two initiatives should dramatically impact on audit coverage in Field Audit.

"At the same time, the Branch is conducting an operational review study in Desk Audit. The intention of this study is to streamline operations and identify resources which can be redirected to discretionary audit activities. This too will increase the level of audit coverage.

"The Branch has established as its objective, an audit coverage level of 2%."

Weak File Selection Procedures

"The factors used to select files for audit, including compliance risk, are constantly being monitored and updated. Legislative changes, court decisions, and revised interpretations necessitate a continuing re-evaluation of selection criteria. Currently, the Audit Section has established task forces to review selection criteria within the framework of the new organizational structure and to create a scientifically based audit selection methodology as part of this on-going process.

"The time assigned to screening is subject to both volume of work and resource availability. The Branch recognizes the need to devote more time to this critical function. Accordingly, a review is currently underway to examine the available options to maximize screening time within these limitations.

"It is the intention of Branch management to document the formal guidelines for screening. In April 1985, the Tax Return Centre was established to consolidate the file screening process. Upon completion of the settling in of the Tax Return Centre, formal procedures will be documented.

"Currently a post-assessment process to monitor screening activities does exist. However, branch management agrees that an additional need exists to strengthen the monitoring function."

Significant Audit Backlogs

"The audit backlog resulted from two developments:

1. In 1983, changes in tax legislation with respect to loss carrybacks and the small business tax holiday provisions required previously automated procedures to be processed manually.
2. The restructuring and automation in corporate tax return processing resulted in the temporary backlogging of unprocessed returns during the transition period.

"These developments are now in the process of being resolved and the backlog is being vigorously attacked.

"In conjunction with the Branch's review of its resource allocations, staff have been and are being reassigned from other support functions to the non-discretionary audit function. A more structured approach to dealing with audit assignments and completions (performance inventory) has been introduced to ensure timely audit activity in the Desk Audit area.

"To ensure audits are performed on a more timely basis in Field Audit several control measures on auditors' file inventories have been implemented. These include, limits on the number of files in process and greater emphasis on the timely commencement and completion of audits in process."

Better Supervision of Field Audit Staff Needed

"The Assistant Deputy Minister approved a new organizational structure for Field Audit on February 25, 1986. This new structure establishes a level of first-line supervisors whose exclusive role is the supervision of professional audit staff. The supervisor positions were advertised April 15, 1986 with the competition concluded May 28, 1986. Selected candidates commenced their duties in June 1986. In addition, a team audit concept was introduced. Under this concept, a group of auditors will be sent to larger corporations. A senior auditor/team leader will oversee the work of those on the team. It is anticipated that this increased supervision will impact positively on quality, productivity, and training.

"The Ministry's policy on auditor travel time is in accordance with the contractual agreement with the Ontario Public Service Employee Union. The Collective Agreement, Article 23.3 states:

> 'When travel is by automobile and the employee travels directly from his home or place of employment, time will be credited from the assigned hour of departure until he reaches his destination and from the assigned hour of departure from the destination until he reaches his home or place of employment.'

"Accordingly, no change is being contemplated at this time."

Planning and Clerical Activities

Automation

"The Corporations Tax Branch is committed to continued upgrading and enhancement of its computer capability. The Branch's Three-year Business Plan identified a number of objectives to further this effort. This includes the following actions for fiscal 1986: the introduction of (10) 3270 personal computers within Desk Audit operations to reduce effort required for the processing of Loss Carry-Backs and Federal Reassessments; installation of (38) application workstations in the Compliance section; enhancement of the Branch word processing function by upgrading to a new system (IBM 5520) with further capacity increase scheduled this fiscal [year]; and, the development of a pilot application to support the field audit operations with lap-top computers.

"In January 1986, the Branch implemented an on-line system to calculate interest and penalties for manual assessments.

"The Branch plan for fiscal 1986/87 is to expand the on-line interest calculations system to include manual reassessments and to review the processing of Federal reassessments to further reduce the resources allocated to this time-consuming operation."

Other Revenue Opportunities

"Vacancies are not being filled when they occur in the filing room. So far there are two vacant positions. Three filing clerks are presently on the Branch rotational career training programme created in February 1986. Several file clerks will be taking advantage of this three month temporary assignment programme for some time to come. It is anticipated that these trainees will obtain other positions as vacancies occur.

"Opportunities in the collection area and elsewhere should utilize another five to six filing clerk positions.

"Management expects that there will be no difficulties in downsizing filing room complement by ten positions."

"Planning projects are conducted following the Ministry's System Development Standards that include resource allocation and events schedules with a documented project organization and reporting structure. These project controls now include a comparision of budgeted resource time to actual progress, using the current microcomputer application that records actual resource time expended per project."

Compliance and Collection Procedures

"The Branch has approved:

- reorganization of the collection section;
- a shortening of the time span in which collection actions are taken;
- an increase in complement;
- an allocation of the return default function to another Branch;
- a substantial increase in field audit activity;
- a significant decrease in the number of accounts each collector is required to handle.

"These measures should significantly increase the efficiency of the collection section and make the overall effort more effective."

Accounts under $500 Not Pursued

"The Branch, through reorganization of its collection section, increased complement, and reduced enforcement time spans, will be able to reduce the dollar limit for collection action down to $200.00 in the near future. A concerted effort will be made to cover all accounts where costs are less than revenue collected."

4.12
Weak Monitoring of Projects Funded, Ministry of Tourism and Recreation

Expenditures incurred for the Tourism and Recreation Operations Program (Field Services Division) in the 1986 fiscal year totalled $69.4 million (Vote 2905, Item 1). Of this amount, $60 million pertained to recreation grants.

Expenditures in the Sports and Fitness Branch totalled $16.5 million (Vote 2904, Item 3), $13.4 million of which related to various grant programs.

SUMMARY

SCOPE AND OBJECTIVES

Our audit of the Tourism and Recreation Operations Program was conducted at the Ministry's main office in Toronto and in the Eastern, Southwest, Northeast, and Central regional offices. Inspection visits were made to 48 grants recipients, constituting a representative sample of grants paid in each region visited.

Our selection of grant recipients was made from organizations which received funding in the fiscal years ended March 31, 1984, 1985 and 1986. Since a long period of time ensued between the approval of projects and the actual payments of grants, projects selected for audit may have received approval for funding prior to 1984.

Our audit of the Sports and Fitness Branch consisted primarily of site visits and the examination of accounting records and systems of seven of the sports governing bodies located at the Ontario Sports Administrative Centre.

Our audit objectives included an assessment of the adequacy of controls over grant expenditures, encompassing compliance with legislation and administrative requirements.

CONCLUSIONS AND FINDINGS

Although controls over the approval of grants were adequate, our examination of projects funded, including the accounting records and supporting documentation of grant recipients, indicated that ongoing monitoring of projects and activities funded was weak.

Tourism and Recreation Operations Program

- **Accountability for selecting, evaluating and monitoring projects funded under the Lottario grant program was not established.**

We noted instances where grant recipients:

- **could not provide full support for reported expenditures;**
- **purchased goods or services without tender or competitive bidding.**

Sports and Fitness Branch

- **A number of recipients reported expenditures that were either inaccurate or could not be substantiated.**

COMMENTARY

Tourism and Recreation Operations Program

Background

The Ministry delivers recreation programs, primarily through the Field Services Division, to about 800 municipalities as well as Indian bands, community colleges, school boards, community recreation agencies and organizations and private sector organizations.

The objectives of recreation programs are to stimulate productivity, employment, and recreation opportunities in Ontario. The Division furthers these goals by providing developmental and management consulting services; undertaking an advocacy role; and delivering financial assistance programs such as Wintario capital and development grants, Lottario grants and Community Recreation Centre Assistance (CRCA) grants.

Grant payments under these programs are generally determined as a percentage of actual project costs incurred by the recipient. Interim and final payments are made based on receipt and approval of a request for payment. Recipients are required to maintain any documentation in support of their requests for payments, should the Ministry request it.

As each new lottery program is announced by the Ministry, guidelines are published clearly defining the types of projects and costs eligible for funding. A primary responsibility of recreation consultants is to ensure only eligible costs are funded by monitoring approved grant projects and evaluating results of government funded activities.

Lack of Accountability for Lottario Grant Administration

We found there were no documented program guidelines, criteria or application forms with which to administer Lottario grants. Furthermore, documentation for selecting and evaluating Lottario grant projects was lacking and responsibility for monitoring these projects was not asssigned.

We were informed by management of the Field Services Division that Lottario grants were not controlled by the Ministry, but by the Premier's Office. Expenditures for this program totalled $36 million (Dome Stadium - $30 million) in the 1985 fiscal year and $6.0 million in the 1986 fiscal year. Future commitments totalled $5.0 million.

The Ottawa Civic Hospital received a $1.7 million Lottario grant to build a new cardiac building. We noted that the final project report required by the grant agreement had not been prepared by the administration manager because the Ministry had not requested it. Construction of the building was completed in September 1984. The financial records of this project were extremely disorganized and the administrative manager could not provide the actual final cost of this project.

A $1.0 million grant was awarded to the City of Ottawa to install an artificial field at Landsdowne Stadium and to construct public changeroom facilities. The grant was based on an estimated total project cost of $2.0 million. However, the actual cost of installing the artificial turf was $1.87 million and there was no attempt by the Ministry to question the status of the changeroom facilities which were to be built. From a tour of the facilities, we noted that changerooms had been built for the Ottawa Roughriders Football Club, not the public. Subsequent to our investigation we were informed that the City intends to build the public changeroom facilities.

We recommended that documentation for selecting and evaluating Lottario funded projects be improved and a monitoring function be established to ensure that public funds are spent prudently for the purpose intended.

Inadequate Support for Reported Expenditures

We noted that some grant recipients could not provide full support for reported expenditures.

- A Wintario capital grant of $304,000 was approved to a soccer club in Ottawa, based on 50 per cent of estimated construction costs. Payment requests submitted by the club as of the date of our visit showed total project costs of $713,000. However, $100,000 of these costs could not be traced to any supporting documentation. A further $70 000 was supported by invoices which had been submitted with previous payment requests. As of December 31, 1985, $213,000 of the grant had been paid.
- A religious organization in London received a Wintario capital grant of $406,000 for one third of the estimated construction costs of a community centre. This organization could not provide proof of purchase of land costing $170,000 or labour costs of $75,000, both of which were included in the grant calculation.

Lack of Tendering and Competitive Bids by Grant Recipients

For a number of projects which received financial assistance under the Wintario Capital and Development grant programs, recipients did not tender or obtain competitive prices for costs incurred.

Program guidelines specify that, in the case of capital grants, the Ministry expects that the lowest bid price will be used, or that an acceptable explanation will be provided. Prior to payment of the grant, the Ministry requires confirmation that this condition has been met unless any necessary exceptions have been previously approved by the Ministry.

We examined documentation maintained by grant recipients to ensure an appropriate process of competitive pricing or tendering was followed:

- In reviewing the costs incurred for the extension of the soccer club building in Ottawa, representatives of the club were unable to provide us with evidence that $587,000 out of total project costs of $713,000 were tendered.
- A soccer club in London could not provide proof of tendering for $65,000 out of total construction costs of $200,000.

Under the Wintario Development Program, purchases of equipment exceeding $2,000 require at least three quotes to be submitted with the application before the project is approved by the Ministry. Once the application is approved, 100 per cent of the grant is paid immediately. Since no subsequent monitoring of the recipient's purchasing practices was performed, prudent use of grant monies was not assured.

Regarding a recreation centre in Leamington, the Ministry did not obtain and centre officials could not provide proof of competitive quotes being obtained for equipment purchases totalling $241,000. Additionally, the actual equipment purchased for this facility differed from the approved list, including office furniture, carpeting and plants.

We recommended that the Ministry improve procedures for monitoring recipients of capital and development grants.

Sports and Fitness Branch

Background

The objective of the Sports and Fitness Branch is to create better opportunities in the province for lifelong participation in sports and fitness activities.

Eight Branch consultants provide advice and assistance to 76 sports governing bodies in organizational and program development, leadership training and competitive excellence. The Branch also provides the bodies with financial assistance.

One Branch program provides base grants to cover costs such as salaries, travel, communication, planning, human resources development and competition/competitor development. In the 1986 fiscal year sports governing bodies received $4.5 million in base grants.

The Branch also financially assists the Ontario Sports Administrative Centre. The Centre, established in 1971, operates as the central point for amateur sport in Ontario. It provides accommodation and related administrative support services to sports governing bodies and other related associations. Certain bodies and/or associations provide their own accommodation, but are served by the Centre. In the 1986 fiscal year the Centre received grants totalling $2.6 million from the Ministry.

In addition, sports governing bodies receive assistance under other Ministry grant programs, federal grants and through their own membership fees and fund raising efforts.

Inadequate Monitoring of Grants to Sports Governing Bodies

The monitoring of sports governing bodies by ministry consultants includes a desk audit of assistance summary reports provided by the bodies, which detail the expenses for which Ministry funding has been provided. These reports are reviewed for arithmetic accuracy and for changes from their initial application for funding. The consultant generally assumes that the amounts reported are substantiated and accurate. We found that in several instances this assumption was incorrect.

Ministry guidelines permit consultants to perform spot checks of sports governing bodies to validate expenditures reported. **However, during our examination we noted that, although consultants visited the sport governing bodies regularly, there was very limited checking of expenditures.**

The sports governing bodies are also required to submit annual financial statements. However, the financial statements are not sufficiently detailed to monitor whether the terms and conditions of the grant have been complied with, particularly with respect to salaries paid. Consequently, the requirement to file financial statements is not a sufficient means of monitoring the activities of the sports governing bodies.

Financial statements should provide sufficient detail and be reviewed by persons with sufficient training to recognize when audit assurance should be sought. The Ministry's recently established internal audit group could provide the necessary assurance, both by special request and through an ongoing selection of sports governing bodies.

Six of the seven sports governing bodies inspected had no supporting documents on file for many expenditures claimed for and reimbursed under the Wintario Development and base grant programs. For example, they were unable to prove reported accommodation costs incurred for team travel to competitions.

In particular:

- During our examination of a bowling association we observed that there was no bookkeeper on staff. Financial statements for a two year period had been prepared to July 1985, but financial records had not been updated since then. In performing our detailed examination of expenses, we could not substantiate reported costs using the financial records of the association. Supporting documents for costs of $235,000 incurred in the 1986 fiscal year could not be located by the managing director. Despite this situation, the Ministry had provided a grant of $117,500 based on these reported costs.

  Under the 1984-85 base grant progam, the association could not provide any support for expenses of $315,000 out of total actual costs of $462,000. Under the 1984-85 Wintario Development Program, the association received a grant based on reported costs of $275,000 of which $176,000 could not be supported.

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 16, 1986.

General

"We concur with the auditor's conclusions and findings in regard to evidence of weakness in the ongoing monitoring of projects and activities in our grants programs. A number of initiatives have taken place, or are planned, in a continuing effort to bring about positive change in this area."

Tourism and Recreation Operations Progam

Lack of Accountability for Lottario Grant Administration

"Lottario projects were treated corporately with specific approval by Cabinet for individual projects. The normal process for projects was to take effect after the Ministry received notification of the approval.

"The Lottario Grant program has been discontinued. All applications for Capital Grants follow the same procedure. The application must come through the field offices and the established policies and procedures for Capital Grants will be applied thereby ensuring much greater control and accountability.

"The outstanding Lottario projects will be monitored very closely to ensure that the completed projects do in fact meet the criteria required."

Inadequate Support for Reported Expenditures

"The files for the soccer club in Ottawa, and the religious organization in London are being reviewed in depth. Refunds for ineligible expenditures will be requested."

Lack of Tendering and Competitive Bids by Grant Recipients

"The files identified with inadequate tendering procedures (soccer clubs in Ottawa, London and recreation centre in Leamington) have been reopened and the purchasing procedures are being reviewed.

"The closure procedures have been modified to ensure the checking of records for proof of the selective pricing process. In cases where they cannot demonstrate that they paid competitive prices, refunds for ineligible payments will be requested. Grant recipients not conforming to tendering requirements risk being placed in default, making them ineligible for future grants."

Sports and Fitness Branch

Inadequate Monitoring of Grants to Sports Governing Bodies

"The provincial auditor found that there was 'very limited checking of expenditures' by Ministry consultants of financial statements from the sports governing bodies. It has been our view that the role of the Ministry consultants has not been, primarily, to validate or verify financial statements of clients. Rather, their prime role has been to assist clients in matters of organizational and leadership development which leads to higher participation levels and improved performances. We believe these objectives should remain the major functions of the sports consultants. However, we believe that the Ministry must extend equal importance to the monitoring of the financial investment it makes in client organizations. Thus, we agree that the Ministry consultants must have the knowledge and training to more closely scrutinize financial statements of client organizations and this will now be written into job requirements.

"In addition, an ongoing monitoring process will be implemented to systematically cover all sports governing bodies over a reasonable period of time.

"With respect to the over-reliance on financial statements to determine whether the terms and conditions of grants appear to be complied with; we feel the solution to this problem lies with the introduction of more operational audits of the ministry grant recipients. Accordingly, with the establishment of the Ministry's Audit Services Branch, a number of reviews of sports governing bodies will take place as part of the Ministry's multi-year audit plan."

re: inadequate support for expenditures

"New guidelines will be written and submitted to clients regarding Ministry expectations on the type of records that must be kept for audit purposes as a condition of receiving a ministry grant. These guidelines should make the audit trail and verification much easier to accomplish in future."

re: bowling association

"It is apparent that the . . . bowling organization is in need of review. We will undertake within three months, a comprehensive review of their administrative operations and procedures to ensure that they are at a level that will satisfactorily account for the operations of this organization."

4.13
Cost Overruns in Municipal Transit Program, Ministry of Transportation and Communications

The transit services of 72 municipalities are subsidized by the Ministry through its Municipal Transit Program. Expenditures for the Program in the 1986 fiscal year totalled $350.5 million (Vote 3008).

SUMMARY

SCOPE AND OBJECTIVES

In conducting our examination of the Municipal Transit Program, one of our audit objectives was to assess the adequacy of Ministry procedures to ensure grants provided were spent economically by the recipients.

CONCLUSIONS AND FINDINGS

We found that the Ministry generally had good procedures in place to ensure grants were being spent economically. However some exceptions were noted. For example:

- **The Ministry's lack of active monitoring of large transit projects, together with the lack of an upper funding limit, resulted in significant cost overruns. In one instance, estimated costs for a rapid transit project rose from $97 million to $389 million.**
- **The absence of a written agreement with a transit organization resulted in a $430,000 overpayment.**

Other Matter

Expo'86 - Additional Costs

- **The latest estimated cost for the Ontario Pavilion at Expo'86 is $31.9 million. The original budget was for $22 million.**

COMMENTARY

Background

The Program's objective is to provide financial and technical assistance to municipalities towards the provision of municipal transit services. The program is administered by the Transit Office of the Ministry.

By the beginning of the 1980's most transit systems in Ontario were reaching relative maturity. The shift in program emphasis changed from expansion to management and the protection of the infrastructure put in place in the 1970's.

In the past four or five years the Transit Office has implemented or has been developing initiatives such as:

- productivity guidelines for transit organizations;
- development and installation of automated systems for transit information, communications and control;
- review of alternative mechanisms for funding recurring capital needs, which will increase as the systems mature and age.

The 1985-86 expenditures for the Municipal Transit Program were $350.5 million, with a 60-40 split between capital construction and the day to day operating expenses of transit organizations. Of the 72 municipalities whose transit services are subsidized by the Ministry, the 2 largest receive approximately 85 per cent of municipal transit subsidies, the next 10 largest receive 10 per cent of the total subsidies, while the remaining 60 organizations comprise 5 per cent of the total subsidies.

The two most common subsidies are:

Capital Subsidies — Capital expenditures are subsidized at a 75 per cent rate for eligible items, which include rapid transit construction, rolling stock (everything with wheels), acquisition and garage/terminal construction. This totalled $180.3 million in the 1986 fiscal year.

Operating Subsidies — Municipalities are eligible to receive financial assistance from the Ministry towards the costs associated with the annual operating costs of their municipal transit systems. The basic operating subsidy covers 13.75 to 25 per cent of the annual operating cost based on municipal population. Such subsidies totalled $130 million in the 1986 fiscal year.

Controls Essentially Adequate

The Ministry has instituted a number of controls to ensure that transfer payments to municipal transit organizations are spent economically. Some of the key controls include the following:

- Organizations must submit an estimate of the project/purchase for which they want a Ministry subsidy. The Transit Office reviews the application and determines whether approval will be given.
- Capital expenditures are required to be tendered. Furthermore, all tenders for bus subsidies must be provided by each organization to the Transit Office prior to bus purchases.
- Operating subsidies make up less than 20 per cent of total operating costs, with the municipality funding over 80 per cent of the cost. Operating subsidies are controlled through the revenue/cost subsidy mechanism, which limits the provincial share of the operating expenditures. This mechanism promotes efficiency by rewarding good and penalizing poor financial performance.
- The Payment Verification Office (PVO) of the Ministry ensures that claims for payment of subsidies by the Ministry are correctly processed. The PVO consists of 17 staff who perform audits of subsidy claims at the transit organizations. The largest 12 transit organizations are reviewed every year, while the remaining 60 are reviewed usually once every three years. The PVO checks claimed amounts to financial records, ensures capital purchases are tendered and comply with the Transit Manual. If the PVO does not agree with the claim(s), it recommends adjustment(s) for consideration by the Transit Office.

We reviewed the procedures undertaken by the PVO and generally were satisfied that they were identifying adjustments for consideration by the Transit Office. We also noted that, for the most part, the Transit Office had addressed the PVO adjustments or concerns on a timely basis.

Significant Cost Overruns - Lack of Project Monitoring and Capping

One year in advance, transit organizations submit for Ministry approval those capital projects plus the related estimated costs for which they want Ministry subsidization. The Transit Office assesses the items requested, taking into consideration the benefits from the project in light of estimated costs. The Transit Office then informs each transit organization of their grant allocation for that year.

During our review of large projects, we noted that for a number of years the Ministry did not take an active part in monitoring approved projects. Furthermore, it allowed transit organizations to spend more than their yearly allocation. As a result, the progress of certain large projects outpaced their yearly allocations. For the four fiscal years ended March 1986, the unfunded commitments made by these transit organizations that were eligible for Ministry funding resulted in a shortfall estimated by the Ministry at $90 million. This was funded by Supplementary Estimates in the 1986 fiscal year.

A large portion of the $90 million committed funds resulted from the following two projects which did not have a funding ceiling:

1) The Ottawa Rapid Transitway Project was approved by the Ministry in 1981 at an estimated total cost of $97.5 million. The Ministry committed itself to funding 75 per cent of the Transitway's costs. As the project proceeded, it was apparent that not all costs had been identified and revisions had to be made to the estimates. Total costs escalated as follows:

Budget Year	Estimated Total Cost ($ millions)
1981	97.5
1982	160.6
1983	174.2
1984	226.2
1985	270.1
1986	389.2

The main reasons for the cost increases were: underestimation of original costs, exclusion of inflation, incomplete details/plans, and change in standards of transitway stations.

By 1986 the estimated cost had increased 400 per cent from that anticipated at the start of the project. Monitoring at the outset may have provided the Ministry with an earlier indication of the potential understated costs.

2) In June 1981 the Province gave approval for the construction of the Scarborough Rapid Transit System using the Intermediate Capacity Transit System (ICTS) technology.

At the time costs for the ICTS were estimated at $134.2 million. This estimate rose to $181 million in July 1982. The project was finally completed for $196 million. The main causes for the cost increases were: underestimation of station costs, track, vehicle monitoring and control system, and traction power costs.

We were informed that the Ministry had started reviewing and approving preliminary and detailed designs and that the Ministry is now also limiting annual funding and emphasizing funding limits at the concept, preliminary design, detailed design and contract stages.

We noted that while the Transit Office placed a ceiling on costs for transit terminals there was no similar upper limit placed on construction of garages. We were concerned by an analysis prepared by the Transit Office revealing that one transit organization planned to build a garage at a cost of approximately $15 million more than an equivalent sized garage in another municipality (excluding the cost of land and adjusting the costs for inflation). Furthermore, while the Transit Office subsidizes 75 per cent of the cost of garages, we were told that in this instance there were no plans to limit the amount to be paid to this organization for the construction of the garage.

We recommended that the Ministry continue its efforts of monitoring transit projects, particularly the setting and enforcement of an upper limit (capping) on spending for transit projects, including the construction of garages.

Lost Revenue Due to No Written Agreement

During our review we noted that a 1984 PVO report indicated that the Ministry had an understanding with a transit organization in 1977 that a special subsidy for operating new transit lines was to be received by the organization for the 3 years ending April 1981. However, this had never been formalized by a written agreement.

In this particular case, special subsidy payments continued to be made by the Ministry from May 1981 to December 1983. The difference between the regular operating subsidy rate and the special rate amounted to $430,000. The Ministry subsequently requested that this overpayment be repaid over a two year period beginning with a $215,000 adjustment in 1984. However, since there was no formal written agreement establishing when the special subsidy was to end, the transit organization refused to pay. As a result, the Ministry decided not to pursue collection of the $430,000.

We also noted that in June 1981, another transit organization agreed to use Urban Transportation Development Corporation (UTDC) technology on the proposed Scarborough Rapid Transit Line if the Ministry agreed to pay any difference in operating costs between the light rail vehicle system originally envisaged by the organization and the UTDC system. In November 1981, the Ministry presented a draft agreement to the transit organization. The agreement, however, was never executed. The Ministry felt that it would defer that matter until actual operating information was available. Operations began in March 1985.

A preliminary operating agreement was finally made in April 1986. It stated that a final agreement was forthcoming and that an interim payment ($1.1 million) would be made by the Transit Office subject to the execution of the final operating agreement. The preliminary agreement did not indicate how costs were to be determined.

We felt that, without formal agreements specifying the terms and conditions of special funding, disputes could arise. Accordingly, we recommended that in instances where the established policies and funding arrangements are deviated from, specific arrangements be made in writing.

Other Matter

Expo'86 - Additional Costs

Ontario's participation in Expo'86 is funded through the Ministry of Transportation and Communications under its Administration Program (Vote 3001, Item 8).

The Province's cost for the Expo'86 Ontario Pavilion was originally budgeted at $22 million in 1982. As of May 31, 1986 approximately $23.1 million had been spent. The latest estimate at the time of our audit was $31.9 million. The following reasons were given for the cost increases: inflation, exhibit purchases, sales tax, restaurant operations, activities, the Deputy Commissioner's office, promotions, etc., which were not originally budgeted for.

We noted that the Ministry's Internal Audit group has had extensive involvement in the project.

Their first audit covered the period April 1, 1983 to February 28, 1985 and involved the assessment of financial and management controls in place at the Toronto offices. They concluded that the project appeared to be well controlled and proceeding on time within budget.

A second or interim audit was performed covering the period April 1985 to May 31, 1986. The audit concentrated on the financial controls, expenditures and commitments made by the Ontario Pavilion. The operations of the restaurant at the Pavilion were also reviewed. Site visits were made to the Pavilion, contractor offices and consultants' offices. Assessment was made of management controls in the areas of economy, efficiency and effectiveness. The audit report had been drafted and was in the process of finalization for issuance to the Deputy Minister. We did not review this report.

A third audit was planned by Internal Audit for the fall of 1986 involving the close of operations and disposal procedures.

RESPONSE

The Deputy Minister responded to our comments and recommendations on October 14, 1986.

Significant Cost Overruns — Lack of Project Monitoring and Capping

"The audit comments are noted. The Ministry will continue its efforts of monitoring transit projects as recommended."

Lost Revenue Due to No Written Agreement

The Commission agreed with our recommendation that in instances where the established policies and funding arrangements are deviated from, specific arrangements be finalized in writing.

CHAPTER 5 - COMMENTS ON CROWN AGENCY AUDITS

5.1
Introductory Comments

The term Crown Agency for the purposes of this segment of the Report includes both agencies of the Crown and Crown controlled corporations. These are defined in Section 1 of the Audit Act.

A listing of agency of the Crown and Crown controlled corporation audits, by category, for the year ended March 31, 1986 is included as Exhibit 6 of this Report.

5.2
Deficient Loan Procedures, The Development Corporations

The combined audited financial statements of the three Development Corporations (Ontario, Northern Ontario and Eastern Ontario) for the year ended March 31, 1986 are reproduced in Volume 2 of the 1985-86 Public Accounts. These Corporations were established to encourage and assist in the development and diversification of industry in Ontario. The Corporations provide financial assistance by loans, grants, guarantees or purchase of shares or other securities, and by the provision of sites, equipment, premises, facilities and services.

SUMMARY

SCOPE AND OBJECTIVES

Our audit included an assessment of lending practices as they relate to both the achievement of corporate objectives and the safeguarding of loans and guarantees. In this regard, we conducted a review of loans written off, loans repaid and new loans made as well as accountability relationships and results reporting.

In addition, fifty problem loans, both large and small, were reviewed in detail. These were selected not because they were representative of all loans, but to enable us to assess whether there were any procedural deficiencies which may have contributed to the problem or loss.

CONCLUSIONS AND FINDINGS

Accountability for Lending Results

Accountability for ODC lending results was lacking. In our opinion, this has impeded the achievement of the corporate objective of fostering economic development and has resulted in losses which could have been avoided.

In particular:

- **Unlike private sector commercial lending practices, under the organizational arrangements at ODC, responsibility for a loan shifts among various departments throughout its life cycle. This diffuses accountability for lending results and complicates communications with borrowers.**
- **Our previous concerns reported in 1984 with respect to the measurement and reporting of performance in relation to the economic development objective have not yet been resolved.**

Lending Practices

Most loans made by ODC are in respect of ultimately successful projects. However, in our review of loans made for projects which were unsuccessful, we observed problems or losses which could have been avoided with proper evaluation and approval procedures. For example, losses were incurred where:

- **key criteria on which loan decisions were made, such as sales and profit forecasts and managerial ability, were not critically reviewed;**
- **unfavourable evaluations of loan applications were either in conflict with other evaluations or were completely ignored in the approval process.**

We also noted instances where:

- **loans were granted despite the lack of potential for economic development;**
- **information accompanying loan recommendations did not include realistic values for assets pledged as security for the loan.**

Loan Administration Procedures

A number of loan administration practices were not adequate to ensure that the loan and guarantee portfolios were protected from loss.

Specifically:

- **there were no formal procedures to monitor the collectibility of each loan, nor were the results of any informal procedures well documented;**
- **management had failed to act promptly when taken advantage of by borrowers.**

All references in the Commentary to borrowers are pseudonyms.

COMMENTARY

Accountability for Lending Results

Organization Structure Precludes Accountability

ODC has three operational departments that parallel the life cyle of a loan:

Loan Applications
Loan Disbursements
Loan Administration

Responsibility for the loan shifts between these departments as the loan progresses through the approval, disbursement and repayment stages.

The division of responsibilities and our concerns were as follows.

Loan Applications

The loan consultant who recommends a loan be made is no longer responsible for it once the loan offer is accepted. Consequently, the consultant has less incentive to critically evaluate the information supplied by applicants. **The consultant is more likely to focus simply on meeting lending targets than on minimizing avoidable risk.**

Loan Disbursements

The disbursements officer takes over until disbursement of funds is complete. This is largely a control function to ensure that loan conditions are complied with prior to disbursement. Disbursements also includes the inspection function which ensures that the project complies with the approved program and that the expenditures are reasonable. **Since the disbursement officer is not accountable for a project's success or failure, there may be a tendency to ignore rather than resolve certain discrepancies.**

Loan Administration

Once fully disbursed, a loan administration officer monitors the condition of the loan throughout its life. However, once the officer deems the loan as uncollectible, a recoveries specialist becomes involved. A loan administration officer not accountable for the ultimate collection of the loan may be less alert to signs of trouble with a borrower. **Similarly, a recoveries specialist may have less incentive to minimize the loss as he had no responsibility for the loan going bad in the first place.**

By comparison it is typical in private sector lending institutions for a loan officer to be responsible for a loan throughout its life. Other functions such as disbursements, routine loan administration and legal advisors provide support to his task. Such an approach also has service appeal since a borrower may deal with fewer individuals and deal more with those most familiar with his operations or project.

For ODC, this fundamental shift in accountability would require that all loan consultants be in the field. There would be no split between applications and administration consultants. All other functions would be in support of the Loans Department, including control of disbursements, inspection, loan documentation, routine monitoring of borrower performance, recoveries and legal advice.

We recommended that management review the present organization structure with a view to implementing accountability for lending results at the operational level.

Measurement and Reporting of Lending Results Inadequate

Because of the focus on economic development, management may decide to assume greater risk than normal commercial practices would dictate. For this and other reasons, their activities may not be directly compared to those of private sector lending institutions.

Although ODC is not profit oriented and is reimbursed for all administrative expenditures and loan losses, there are aspects of its operations which should be compared to profit oriented institutions. For example, important indicators for lending institutions include loan write-offs as a percentage of eligible loans and non-performing loans as a percentage of eligible loans. Although these ratios are likely to be higher for ODC, an acceptable range from industry norms could be established and comparisons made over time. To date, there has been no attempt to establish an acceptable loss ratio against which corporate performance may be compared.

Financial ratios are not the only dimension of lending results for ODC. In keeping with the development objective there are other measures of performance for which the loan consultant, and ultimately ODC must demonstrate accountability. These measures include permanent jobs created or maintained, contributory investment from the private sector, salaries and taxes paid.

Although management had collected and reported such information in the past, our 1984 report drew attention to concerns over the misleading and inaccurate reporting of such information. These concerns still remained to be resolved at the time of our 1986 audit.

We recommended that the reporting of lending results include reliable indicators of both financial performance and economic development performance and that these results be compared to predetermined levels of performance.

Loan Application Evaluation and Approval Procedures

Information Provided by Applicants Not Critically Reviewed

Loan consultants were too ready to accept information supplied with a borrower's loan application. The consultants' evaluations of loan applications were based on forecasts but there was often insufficient information to determine whether the forecasts were realistic. We also noted there was seldom any rational basis for adjustments made to forecasts by loan consultants.

Submission reports containing the consultant's evaluation support each loan application through the approval process. These often gave praise to the borrower's aptitude, ability, expertise, experience and track record. The reality may have been quite different. For example:

In Tourist Lodge-One, when the borrower was asked for the basis for his forecasts he wrote, *'Documented market demand is my word and my reputation as a businessman.'* This reply was accepted.

In Entertainment Lodge, the Ministry of Tourism and Recreation (MTR) consultant's report referred to the borrower as an accomplished hotelier capable of creating new demand for the expanded facility. **The loan consultant's submission report described the borrower as an extremely competent manager who could handle the program readily. A later report recommending the loan be called stated that the company's problems were caused by over-ambitious expansion compounded by inexperienced management.**

In Medical Supplier, an assessment was made first by an industry consultant of the Ministry of Industry, Trade and Technology (MITT). **This assessment of management, production and marketing capability of the key executives emphasized their proven track record. The ODC loan consultant did not question this assessment. A $1,000,000 loss in their first year followed by a $300,000 loan guarantee application, brought on an assessment by another ODC consultant who concluded they had no such track record. The receiver subsequently confirmed this latter assessment.**

The comment commonly encountered in these evaluations was that *'based on the forecasts this project will be a success.'* A forecast that showed otherwise would not support the loan application. In Entertainment Lodge, to support a Tourism Redevelopment Incentive Program (TRIP) guaranteed loan application, **sales were forecast to rise sharply from $1,000,000 one year to $3,000,000 the**

next, the level at which profits would finally emerge. Neither the sales nor the profits were realized and shortly thereafter the borrower became insolvent.

There were other instances where there was no indication of why success should suddenly materialize especially where previous owners had been unsuccessful. In Marina-One, the two previous owners failed and revenues declined sharply. **Profit projections by the new owner looked most impressive but no substantiation was provided for the projected sharp increase in profit margin, even if the claimed sales would have materialized.**

In some cases the marketing question was largely glossed over by the loan consultant and the borrower. The assumption was that once the product or service was available a demand for it would arise. **Medical Supplier forecasted sales of $1,150,000 in their first year. Actual sales were only $18,000.**

Where price comparisons are made the basis of comparison can be erroneous. In Bean Protein, it was stated that bean protein at 50c/lb would be readily saleable since beef cost $9/lb. Actually the average retail price of beef at the time (1979) was $2.36/lb, and the projected production cost of 50c/lb for bean protein might easily have been tripled when the packaging, distribution and mark-ups were included. By making an improper price comparison the product's prospects were made to appear rosy.

In Furrier, a loan was approved to support the manufacture of garments from exotic furs such as tiger, leopard and jaguar. These items were all on the endangered species list and could not be imported into Canada, manufactured into garments, or sold in Canada. In fact, there was no legal market for the product.

Evaluations Inconsistent or Ignored

In Tourist Lodge-One, the submission report to the ODC Board of Directors (Board) characterized the borrower as capable and experienced, the forecasts as close to those of the Ministry of Tourism and Recreation (MTR), and the project as being recommended by MTR. **However, the MTR consultant had reported that the proposal must be modified before it could be supported because of optimistic forecasts, lack of experience, and unsupported demand for important parts of the business. The business never became operational and ODC lost more than $596,800.** At the time of our audit, recoveries had yet to be determined.

In Vegetable Processor, a $1,000,000 loan was made to set up a new company to acquire and amalgamate two enterprises. Within two weeks of approval, $900,000 was disbursed. **Management did not thoroughly examine the project nor critically review information submitted by the borrower. Assets pledged as security were not even inspected.** Since both companies acquired with the proceeds of the loan were not financially viable, the success of amalgamating them was questionable. In fact the new company went into bankruptcy within 18 months of receiving the loan, resulting in losses to ODC of $1,420,000.

Review Process Circumvented

Sound loan management requires that a loan official's actions be reviewed. An instance where this practice was not followed provided an example of its importance. In Fan Manufacturer, matters were left very largely in the hands of the then Director of Loan Applications. Although the Board approved the loan, no senior review was made of the Director's proposal before it went to the Board. The financial forecasts and sales projections on which the loan was based were unrealistic and ODC ultimately lost $2.1 million.

In another case, the federal Department of Industry, Trade and Commerce, MITT, and the loan consultant did not support the proposal of a loan to Canoe Builder. Local boat builders and dealers were upset that government backing would be provided for a new competitor, when the rest of the industry was struggling to stay afloat. However, the then Director of Loan Applications recommended that the Board approve a loan for $325,000, interest free for the first three years, and this was done. The company became insolvent a year after the funds were disbursed.

Some Loans Had Limited Potential for Economic Development

Management emphasis is on economic development and as a matter of policy requires all submissions for approval to fully consider this aspect. **Surprisingly we discovered cases where loans were**

approved despite a lack of potential for economic development. In the case of both Railway Equipment and Canoe Builder, their markets were forecast to remain constant or shrink over time. Therefore, if the borrowers were successful their domestic competitors would suffer to an equal extent.

Overstatement of Security

Assets which comprise the security for a loan were stated at the applicant's original acquisition cost in loan submission reports presented for approval. Yet if the project failed, the realization value of assets on recovery could be very much lower than the acquisition cost. Private sector lending institutions give recognition to this when negotiating security for a loan.

In Vegetable Processor, equipment originally purchased from a related company for $428,000 realized only $47,000 when sold at public auction. Land and buildings purchased from another related company for $325,000 still remain unsold two years after the receiver's appointment. An offer of $75,000, accepted by ODC, fell through before closing.

Equipment purchased by Canoe Builder for approximately $400.000 was valued during the receivership at less than $100,000. In Hi-Tech Venture, the receiver sold assets which cost $330,000 for $33,000.

We recommended that loan submission reports include a realistic assessment of the value of an applicant's assets under distress sale conditions so that a realistic picture of the security coverage would be presented at the time loan applications were being reviewed for approval. We further commented that this would assist in establishing the true extent of the risk involved, so that an informed decision could be made on whether or not to accept the risk by approving the loan.

Loan Administration Procedures

Loan Collectibility Not Adequately Monitored

No formal procedures were in place to monitor the condition of each loan, principally its collectibility, nor were the results of any informal monitoring documented.

Consequently, management was unable to demonstrate that it was maintaining effective control over its loan portfolio. Without close attention being given to the financial well-being of its borrowers, loan consultants were not in a position to detect early warning signals and give prompt advice to help avert financial collapse. In addition, it was not possible for ODC to take quick and decisive action to protect its interests.

In Vegetable Processor, financial information and statements submitted by the borrower clearly indicated that all was not well. However, there was no indication that an alert was triggered and enquiries commenced. Eighteen months after the loan was made, the borrower voluntarily declared bankruptcy.

In Civil Engineer, ODC was not aware that a receiver had been appointed until after the assets had been sold. Only then was ODC informed of the fact. The proceeds of the sale were only adequate to compensate the bank who had appointed the receiver.

Although in many cases repayment terms depend on financial results, the Corporations rarely required that the financial statements submitted be audited. Such was the situation in Publishers and Lumber Producer. This opens the door for borrowers to adjust their true financial picture. **In a review of more than 150 loans made in the 1986 fiscal year, not one agreement contained a clause requiring audited financial statements.** We recommended that management review the reasonableness of this policy, particularly for larger loans and those where repayment terms have been tied to financial results.

Breaches of Loan Conditions Not Rectified

In cases where the borrower had breached the conditions of the loan agreement, the frequent ODC response was to "request" rectification, sometimes permitting the problem to persist for many months.

In one case a creditor signed an agreement to allow the ODC loan to take precedence over his debt but subsequently the creditor was paid before ODC. The funds amounting to $49,000 were requested from the borrower but nothing was ever received.

In Vegetable Processor, a $90,000 dividend was paid contrary to conditions in the loan agreement. Action by ODC to rectify this violation was ineffective and its loss when Vegetable Processor went bankrupt was increased by this amount.

In Inn-Four, the borrower persistently ignored undertakings he had made from the outset. He started by extending the approved project without prior notice to ODC. When ODC asked how he planned to fund the excess work, costing $200,000, the borrower prevailed upon ODC to furnish an "overrun" loan of $110,000 on the strength of a matching bank loan of $110,000. Although the bank loan never materialized, ODC allowed disbursement of its loan, on the understanding that the borrower would make additional funds available to complete the expanded project. Not long afterwards the borrower was granted yet another loan of $110,000 because additional funds did not materialize.

The borrower then breached the three loan agreements by withdrawing shareholder funds previously invested. A firm ODC demand that he restore the funds was ignored. This was followed by letter allowing him to restore them over a reasonable length of time. At the conclusion of our audit there had been no restitution.

Corporations' Interests Not Protected

Because of management's economic development objective, they were reluctant to act promptly where loan conditions had not been met or where a loan was in default. However, we felt that action should have been more prompt where borrowers or other lenders had abused this leniency.

In Steelworks, ODC continued to lend despite having caught the company three times misdirecting funds to be held in trust for ODC. ODC was convinced that the borrower was profitable and should therefore merit continued support. However, financial statements subsequently received revealed a loss of $2,500,000. ODC had to write off $645,000.

In Theme Park, the bank demanded ODC honour its guarantee and stated that they chose not to enforce security. When the loan administration officer wanted to take steps to protect the assets securing the loan by appointing a receiver and pursuing personal guarantees, Legal Branch properly pointed out that ODC did not have this right. However, ODC could have requested the bank to enforce security but did not do so.

The bank's solicitors put that position very clearly in a letter explaining the bank's conduct since first calling the loan.

> *'The terms of Sections 3(5) of the TRIP guarantee precluded our clients from enforcing the mandatory security if they had not commenced to enforce that security prior to demand on ODC or within 10 days thereafter. Thereafter our clients had no right to enforce the security without request from ODC and no request has ever been received.'*

By failing to act more promptly, assets pledged as security were not protected. Some were stolen and others removed by the borrower. ODC had to honour the guarantee at a cost of $294,000.

In the case of Gardening Supplier, ODC's legal advisers discharged security on a loan which had not been fully repaid. When repayment was not forthcoming and the loan had to be called, ODC was left with no alternative but to consider writing off the outstanding amount of $40,000, as they no longer had any security for the loan. At the conclusion of our audit this amount had not been written off.

Finally, in the case of Vegetable Processor, a number of transactions and circumstances were described on file which on the surface appeared questionable. According to Board minutes, management had informed the Board that this case had been referred to the OPP Anti-Rackets Branch. A later update stated that it had not yet been assigned to a specific officer. However, when contacted by us, the OPP stated that they were not aware of the case.

The foregoing comments were included in a report dated September 30, 1986. The Corporations have not had an opportunity to respond and we are, therefore, unable to present their views on the subject matter.

5.3
Status of Audit, IDEA Corporation

The IDEA Corporation was established in 1981 to promote the process of technical innovation in Ontario. Effective July 1, 1986, the Corporation was dissolved. Responsibilities for all investments and commitments made by its subsidiaries have been assumed by the Ontario Development Corporation.

The financial statements of the Corporation and its subsidiaries for the year ended March 31, 1986 and for the period ended June 30, 1986 were not finalized pending agreement on the valuation of investments held by the subsidiaries. Accordingly we were unable to complete our audit of the Corporation prior to the printing deadline for this Report. We were informed that the draft financial statements would be reviewed by the former Board of Directors and senior officials of the Corporation at a meeting scheduled for November 4, 1986.

At the request of the Special Advisor to the Premier, the Audit Services Branch of the Ministry of Industry, Trade and Technology has conducted a detailed audit of the administrative expenditures of the Corporation with respect to the months preceding its dissolution. A report has been issued which, we understand, was also to be discussed at the November 4, 1986 meeting.

5.4
High Workers' Compensation Claims and Cash Management Observations, Liquor Control Board of Ontario

The Liquor Control Board of Ontario (LCBO) regulates the sale and transportation of liquor throughout the Province and establishes stores for the sale of liquor to the public. The Board's audited financial statements for the year ended March 31, 1986 are reproduced in Volume 2 of the 1985-86 Public Accounts.

SUMMARY

OBSERVATIONS

During our current year's audit, we noted the following:

- **The number of LCBO claims for workers' compensation was significantly higher than in other comparable industries.**
- **Because of poor cash forecasting, the LCBO was in an ongoing overdraft position of approximately $6 million and incurred overdraft interest charges of approximately $725,000.**
- **The LCBO could save approximately $145,000 per annum by using the services of one bank rather than six.**
- **Discrepancies in LCBO warehouse stock status reports were not fully investigated.**

COMMENTARY

Worker's Compensation

When an employee is injured at work, the Workers' Compensation Board (WCB) provides compensation to that employee during the employee's absence. The compensation process at the LCBO is as follows:

- A permanent employee is paid full salary by the LCBO for the first 65 days the employee is off work due to injury.
- After this period, the employee has the option either to use his/her sick leave and vacation credits in order to continue receiving 100 per cent salary, or have the WCB pay 90 per cent of his/her gross salary net of UIC, CPP and taxes.
- After a period of 6 months, the employee is considered to be on long term disability.
- Temporary employees are paid 90 per cent of the net salary by the WCB, according to their hourly rates and hours worked. The WCB bills the LCBO for these wages.
- For both permanent and temporary employees, administrative expenses and doctors' bills are paid by the WCB and reimbursed by the LCBO.

High Number of Claims

We reviewed the WCB statistics for the LCBO and found that the number of claims per 10,000 employees was considerably higher than in other comparable industries. Statistics for the 1985 calendar year showed the number of claims per 10,000 employees to be as follows:

Retail food industry	728
Brewers retail	717
LCBO	1,053

Workers' compensation costs represent a considerable expense to the LCBO, both in lost time and dollars. During the 1985 calendar year, a total of 5,646 days were lost, at a cost of almost $1 million dollars, including administrative fees.

The total number of claims in 1985 were almost 24 per cent higher than in 1984. Claims for the first four months of 1986 showed this trend continuing, with claims 63 per cent higher than in the comparable period during 1985.

We were informed that, recognizing the seriousness of the problem, the Board has taken measures to promote safety in the work place.

Cash Management

Improved Cash Forecasting Needed

The Board is required to remit its net profits on a weekly basis to the Treasurer of Ontario. The amounts are determined by the Board's Finance Department and are subject to revision depending on alterations in cash flow. During the 1986 fiscal year the Board remitted $638 million to the Treasurer of Ontario.

At the beginning of each fiscal year, the Board's Finance Department projects an annual weekly transfer schedule for the Ministry of Consumer and Commercial Relations and the Treasurer of Ontario. This weekly transfer schedule is based upon the prior year's schedule appropriately adjusted for any known or anticipated fluctuations in cash flow.

Our review of these cash flow projections revealed cash fluctuations which we believe could have been anticipated, but were not taken into account, in preparing the profit transfer schedule. Consequently, the weekly remittances to the Treasurer of Ontario, based upon the profit transfer schedule, consistently exceeded the Board's available cash during the year. Thus, during the year the Board was in an overdraft position of approximately $6 million and incurred overdraft interest charges of approximately $725,000.

Management advised us that overdrafts had to be incurred to finance the inventory investment at the Durham warehouse as well as to meet other day-to-day obligations. However, we noted that during the period April 1, 1986 to May 24, 1986, when inventory financing was not required, the Board was still in an overdraft position.

In our opinion, more careful monitoring of cash flows and periodic adjustment of the profit transfer schedule should assist the Board in minimizing overdrafts and incurring overdraft interest.

Banking Arrangements

The Board utilizes six chartered banks to handle its banking transactions. For the 1986 fiscal year total deposits and disbursements amounted to approximately $3.6 billion. There were approximately 200,000 deposits made and 21,000 cheques issued during the year.

The banking agreements with the six chartered banks vary in duration from one to two years. Each banking agreement has different terms and conditions as well as various banking service charges based upon the volume of transactions.

Bank service charges paid to the six chartered banks for the 1986 fiscal year amounted to $1.2 million excluding overdraft interest.

At the time of our audit one bank handled 32 per cent of all banking transactions, with the remaining transactions spread over the other five banks.

We felt that the Board could realize savings by using the services of one instead of 6 chartered banks for the following reasons:

- Given the Board's large dollar volume of transactions, a better package, perhaps through a competitive bidding process, could be realized by dealing with one bank.
- Savings in time and effort could be realized in record keeping when dealing with one instead of six banks. For example, the preparation, recording and reconciliation of the monthly banking transactions would be required for only one instead of six banks.
- A bank generally pays a higher rate of interest to customers maintaining a required minimum monthly balance. Such a requirement could be more easily met by the Board by dealing with one bank rather than six. Consequently, interest revenue could be increased.

We calculated that the Board could save at least $145,000 per annum by utilizing the services of one bank.

Inventory Shortage at Leased Warehouse

Up to March 31, 1986 the Board had utilized three warehouses in addition to Board owned storage facilities.

One of these warehouses was leased by the Board and operated by the Board's staff. The other two warehouses were public warehouses and the Board was charged a monthly storage and maintenance fee.

These three warehouses were closed as of March 31, 1986 and all inventory was transferred to Durham and the other Board owned warehouses. However after the three warehouses had been closed, the stock status reports of these warehouses still showed stock on hand of approximately $705,000, made up as follows:

Leased	$434,000
Two public warehouses	271,000
	$705,000

The Board's Internal Audit Department investigated the discrepancy at the two public warehouses and concluded that it was due to errors in bookkeeping. However, no work was done by the Board to investigate the inventory difference of $434,000 at the leased warehouse.

In May 1986, the Board wrote off the amount of $705,000 from its inventory records.

We also noted the following deficiencies in the process relating to the closing of the warehouses:

- A physical count of all inventory was not taken at the three warehouses prior to the transfer.
- The stock status reports for the two public warehouses were not reconciled to the records maintained by the Board employees stationed at the warehouses. We were informed that such a reconciliation had not been done since the 1984 fiscal year.
- In respect of the $705,000 written off, the Board paid import duties of approximately $245,000. We questioned the necessity for the payment as we were unable to satisfy ourselves that the inventory ever existed in the first place.

We recommended that the Board further investigate this matter in order to determine:

- Whether the discrepancies at the leased warehouse were due to bookkeeping errors or some other reason.
- Whether duty was required to be paid in respect of imported inventory.

RESPONSE

The Board responded to our comments and recommendations on October 15, 1986.

Workers' Compensation

High Number of Claims

"At the time of your audit, concerns with regard to increases in the value of claims for workers' compensation had already caused senior management to review our experience for recent years. As you have pointed out, measures have been taken to promote safety in the workplace. Additionally, it is our intention to recruit a compensation manager who will ensure the proper investigation of claims, and the management of claims through the review appeal process."

Cash Management

Improved Cash Forecasting Needed

"We agree with your observations and will adjust our profit transfers more frequently to reduce overdrafts. This matter has already been discussed with Treasury.

"It should be pointed out, however, that careful monitoring of cash flow has always been an inherent part of our fiscal management. As indicated, this situation was due in the main to the need for maintenance of increased inventory during start-up of the Durham warehouse, and was necessary for nine months beyond the forecast period.

"The amount of overdraft interest incurred does not represent a loss to the consolidated revenue fund. To the extent that Treasury's cash needs are reduced by our excess transfers, their interest expense costs are proportionately reduced and, for the most part, offset our expense."

Banking Arrangements

"In response to your observations we will undertake a feasibility study to review alternatives to our present system. We feel that the savings you forecast may not be attainable due to additional costs of certain banking arrangements such as services for change purchases. Our past practice was felt to be equitable in that it gave the major banks a share of our business."

Inventory Shortage at Leased Warehouse

"With regard to the discrepancy related to the two public warehouses, our Internal Audit Department has found that all five of the major discrepancies they selected for testing were due to data input errors or problems relating to a procedural error.

"The five brands alone accounted for approximately $184,000 of the $271,000 noted and, based on this finding, it was determined that a claim against the public warehouse company could not be justified.

"With regard to the discrepancy at the self-operated, leased warehouse, it should be pointed out that attempts were made to restore certain computer records but some errors persisted. We have set up a task force to analyse and resolve this problem.

"Where duties were paid unnecessarily, due to book adjustments, corrective action will be taken."

5.5

Weak Management of Information Systems, Office of the Legislative Assembly

The financial statements of the Office of the Legislative Assembly for the 1986 fiscal year reflected expenditures of $48,250,407 (Vote 1101).

SUMMARY

OBSERVATIONS

Our audit revealed that the information system had not been well designed, resulting in duplication of data entry and inadequate reporting.

COMMENTARY

Planning and System Development Processes Weak

In May 1984 we reported on a number of deficiencies regarding the development and control of information systems. During our current year's audit we examined the progress made since that time. **We noted that many of these deficiencies have still not been addressed and, because of their significance, they have been raised again.** Adding to their significance is the fact that, subsequent to our review in 1984, a more advanced computer system was acquired.

The first system was installed in 1979 to account for expenditure transactions. Since it did not have the capacity to produce computerized cheques, another separate system, the Cash Book System, was developed to print cheques. The result was a duplication of data entry steps.

Subsequently, management determined that financial reporting was inadequate, especially with respect to MPP expenses. As a result, another system was acquired from the Ministry of Government Services (MGS). Since it required data entry at a more detailed level, data entry steps, which had already been taken, were again duplicated.

At the same time, the Legislative Assembly of Ontario (LAO) was still sending input forms of summaries of transactions to MGS, where they were also being entered for expenditure reporting purposes.

In many cases, therefore, data for one single transaction was being entered four different times.

LAO staff have estimated that 1½ person years could be saved if the duplication of data entry was eliminated.

In July 1984, LAO upgraded to a more advanced computer system. Plans were made to bring all processing completely in-house and to integrate all existing systems and thereby eliminate the duplication in data entry.

At the time of our audit, no tangible progress had been made on the new system and no formal development standards had been implemented.

We recommended the following:

- a formal planning process for information system development including documentation, annual updates and target dates for completion of work;
- a formal set of system development standards and procedures; and
- better training and supervision of staff.

RESPONSE

The Office of the Speaker responded to our comments and recommendations on October 16, 1986.

"Your audit of the Management Information Systems conducted last winter is noted. It is my understanding that the system is in fact a collection of stand alone processes built to address the "ad hoc" needs of the Assembly. With new management and a reorganization of the Finance Branch I am advised the systems will be reviewed and addressed in terms of your recommendations. In the interim, where possible, those changes necessary to rectify the training, control and security weaknesses you identified have been implemented.

"The areas you recommend for further automation are valid. The financial systems were not built as a result of a comprehensive design or plan. A major overhaul is warranted. The small size of the systems section limits the ability of the Finance Branch to reallocate resources and do the necessary design and programming work from within its current resource base. Therefore, the question of the funding required for the developmental work you recommend will be thoroughly analyzed and then reviewed by the Board of Internal Economy. In addition, the Board has initiated a major review of the information systems needs of the Legislative Assembly. The second phase of the study is now underway and will include a detailed review of the three party caucuses and all offices of the Assembly, including the Finance Branch."

5.6

Inadequate Control over Patient Billings and Other Matters, The Ontario Cancer Treatment and Research Foundation

The objective of the Foundation is to establish and conduct a program of research, diagnosis and treatment in cancer, including the recording and compilation of case data, the education of the public and provision of training facilities.

As at March 31, 1986 the Foundation's assets totalled $44.7 million, with corresponding liabilities of $5.1 million and fund equities of $39.6 million. Revenue for the year (including grants of $43.5 million from the Province) was $49.5 million, and expenditure totalled $52.6 million.

SUMMARY

OBSERVATIONS

During the current year's audit we noted that:

- **Controls to ensure that patients are billed for treatment remained weak;**

- **Fixed asset records were inadequate; and**
- **There were no controls to ensure that all drugs and supplies issued from the Ottawa Clinic pharmacies were prescribed or released for valid clinic purposes.**

COMMENTARY

Patient Billings

Patient billings at the Ottawa Clinic, primarily to the Ontario and Quebec health insurance plans, are prepared manually from 'charge sheets' forwarded to the clinic's business office by the attending physician.

Current billing procedures were inadequate to ensure that all eligible treatments rendered at the clinic are billed since:

- there was no assurance that a 'charge sheet' was completed by the physician rendering an eligible treatment; and
- there was no assurance that all completed 'charge sheets' were received and billed or otherwise accounted for by the business office.

Medical staff at the Ottawa Clinic estimated that approximately ten per cent of eligible treatments were not billed. With billed revenues exceeding $1 million in 1985, unbilled treatments were significant.

Inadequate control over patients' billings at other clinics has also been noted in previous audit reports to the Foundation dating back to 1982, yet the situation in other clinics remains essentially unchanged. For example, in a report dated November 30, 1985, the London Clinic estimated that it bills just 27 per cent of potential inpatient revenues.

Previous report responses indicated that head office information systems staff were developing a computerized patient care management system for use in all clinics to correct the problem. Development of this system began in 1983; however, its implementation at the clinics did not appear to be imminent at the time of our audit.

We recommended that renewed emphasis be given to implement the computerized patient care management system and, in the meantime, the clinics should introduce alternative controls to ensure all eligible services are billed.

Fixed Assets

The Foundation's head office did not have a satisfactory fixed asset inventory system in place to control approximately $3 million in fixed assets.

We selected a sample of ten fixed assets from the head office detailed fixed asset listings and were unable to locate two of them. Additionally, we selected ten fixed assets from the Foundation's premises and were unable to locate four of them on the detailed fixed asset listing.

We recommended that the Foundation maintain an accurate and up-to-date fixed asset inventory system and undertake periodic reconciliations to assets on hand, to ensure all purchased assets are accounted for.

A further review of fixed asset records maintained at the Thunder Bay Clinic indicated that they were inadequate for internal control purposes. Specifically, we noted that:

- the clinic has no records for any of its computer equipment on hand. All inventory and cost records for computer equipment are maintained at the Foundation's head office;
- two out of eight non-computer assets examined were not recorded on a fixed asset control card.

We recommended that the clinic acquire a satisfactory fixed asset inventory control system for all assets to permit the periodic reconciliation between recorded assets and those on hand, to ensure all purchased assets are accounted for.

Control over Drug Inventory - Ottawa

Both the Civic and General Hospital Cancer Clinics in Ottawa maintain their own pharmacy staffed by a hospital supplied pharmacist. Drugs and supplies are purchased from the host hospital pharmacy and are billed to the clinics monthly. The total purchases for 1985 were approximately $1 million.

Although controls were adequate to ensure that drugs and supplies billed by the host hospitals had been ordered and received, there were no controls to ensure that, in total, all drugs and supplies issued from the clinic pharmacies were prescribed or released for valid clinic purposes. Such assurance would normally be obtained by periodically reconciling purchases and authorized issues with opening and closing inventories on hand.

Other Matter - Typewriter Leases

In September and October 1984, the London Clinic entered into one year financing type lease agreements for eight electronic typewriters. Terms of these leases called for payments totalling $8,130. The clinic had the option of purchasing the typewriters at the conclusion of the lease at 10 per cent of original cost or $95 per typewriter.

Instead of exercising this option, the London Clinic entered into a new lease agreement effective November 1, 1985 for eight new and identical typewriters. **This lease committed the clinic to make payments totalling $8,912 over the coming year, $8,100 more than the cost of exercising the purchase option.**

RESPONSE

The Foundation replied to our comments and recommendations on October 15, 1986.

Patient Billings

"Numerous meetings have been held at which clinicians, administration and information systems staff have addressed the various problems related to patient billings. As a result of this co-operative approach in identifying the problem areas, substantial improvement in billing has been achieved and is reflected in increased revenues during the current fiscal year."

Fixed Assets

re: Head Office

"We agree with your recommendation. A reassignment of clerical staff duties has been made which will assist in keeping these records up-to-date."

re: Thunder Bay Clinic

"The control and purchase of all computers at each of the Foundation's clinics rests with the Information Systems Department at Head Office. Inventory data for these units will be transferred to the clinics at the end of each year.

"With respect to non-computer assets, all such assets at Thunder Bay have been recorded and reconciled as at March 31, 1986."

Control Over Drug Inventory

"Control procedures will be developed to ensure that drugs and supplies are only released from the pharmacy for prescribed or otherwise authorized clinic purposes."

Other Matter — Typewriter Leases

"It is apparent that the transaction noted in the report showed a major lack of judgment on the part of a Foundation employee. Further investigations indicated that the initial lease agreement was made to circumvent the Foundation's policy that no capital funds were available to purchase any new typewriters during the year in question. Evidence also indicated that no personal commission or remuneration was received by the individual involved upon disposal of the original typewriters. The person involved in the transactions is no longer a Foundation employee."

5.7

Continuing Accounting Weaknesses, The Ontario Heritage Foundation

The objectives of the Foundation include the acquisition of property in trust for the people of Ontario and the preservation of property of historical interest.

As at March 31, 1986 the Foundation's assets totalled $45.6 million, with corresponding liabilities of $3.3 million and fund equities of $42.3 million. Revenue for the year (including grants of $7.6 million from the Province) was $9.9 million, and expenditure totalled $3.2 million.

Auditor's Report for 1986

SUMMARY

OBSERVATIONS

During the current year's audit we noted:

- **continuing weaknesses in the state of the Foundation's accounting records and procedures;**
- **inadequacies and control weaknesses in a newly adopted computer system.**

COMMENTARY

Accounting Records and Procedures

Our 1985 report stated that the quality and accuracy of the accounting records and the timeliness of the year end procedures did not meet the standards expected in an organization the size, nature and complexity of the Foundation. The response received from the Foundation indicated that the implementation of a computerized accounting system and the creation of a new unit to improve utilization of human resources and financial procedures would facilitate the production of more accurate and timely records in the future.

However, during our current audit, we found very little change in the condition of the Foundation's records. **Again, as in the prior year, the necessary year end account analyses and reconciliations were not adequately prepared by the Foundation, necessitating significant additional work by our audit staff. Furthermore, during the course of the audit, a number of significant accounting errors were found and subsequently corrected in the Foundation's accounts.**

We again recommended that analyses and reconciliations of account balances be done monthly. Also, all analyses and reconciliations should be independently reviewed and approved to ensure that they are properly prepared and, if necessary, the accounts adjusted accordingly.

Deficiencies in Computer System and Controls

During the year the Foundation computerized its manual system. **Our year end audit work identified the following inadequacies and control weaknesses in the computer system.**

Inadequacy of System

A printout of the details of the general ledger account did not exist, thus making it difficult to trace transactions in the year. In order to obtain information about any specific account balance for analyses and reconciliation purposes, it was necessary to access three separate files in the computer.

Another weakness noted was that the system could not accommodate more than seven digits. More than seven digits resulted in the deletion of the additional digits.

Control Weaknesses

Processing

- input was not authorized by accounting personnel prior to being keyed in;
- no evidence of reconciliations of output to input existed; and
- output was not independently reviewed to ensure the accuracy and propriety of data.

Operations

- formal operating procedures were not established;
- physical security was lacking as access to the hardware, software packages, and diskettes was not restricted; and
- passwords were not established for computer programs or data files thereby permitting unauthorized access.

Conversion Project

Subsequent to year end, the Foundation received additional funding for the acquisition of a larger computer system to meet the Foundation's expanding needs. Plans were underway to convert the current accounting system to this larger system.

We recommended that management play a more active role in the conversion process to avoid repeating the weaknesses associated with the initial conversion.

RESPONSE

The Chairman of the Foundation responded to our comments and recommendations on October 16, 1986.

Accounting Records and Procedures

"We are in fundamental disagreement with your contention that there was 'very little change in the condition of the Foundation's records' from your prior year's audit review (spring-summer 1985) to this review (spring-summer 1986). In the year previous, the information made available to your staff was demonstrably less substantial, having been prepared from hand-posted ledgers, journals and other antiquated techniques. ... the Heritage Branch underwent significant changes during the latter months of the 1985/86 fiscal year, including reorganization and phasing into computerization of its financial functions. The use of a micro-computer in 1985/86 enabled the production of more timely financial information and reports from the point of view of the management and in-year control of the Foundation.

"... analyses and account balance reconciliations were undertaken in order to generate monthly management reports."

Deficiencies in Computer System and Controls

"... Since the micro-computer was viewed as an interim step only, it was always expected that efforts to create a 'polished' system would be directed to development of the mini-computer's systems and procedures (now partly operational).

"Input of documentation into the system was both coded and reviewed by accounting personnel prior to being keyed in.

"Reconciliations between output and input exist currently in the form of monthly bank reconciliations performed by accounting personnel not normally involved in routine banking activities.

"Output, in the form of the monthly financial statements, is reviewed by staff and Board members. Although the details of each transaction are not presently reviewed between data-entry and output reports, the mini-computer system is expected to make available greater data editing power than was previously possible.

"In light of the fact that the Foundation was in a transitional stage with respect to computerized accounting, formal operating procedures were not undertaken. However, informed procedures were established in order to develop a monthly routine.

"Backup of data files on the micro-computer system was taken when required. Since data were not entered every day, backup was not required as often as suggested. Backup of data in the mini-computer is taken daily as a matter of routine. Physical security and passwords, not inherent features on the interim system, are built into the mini-computer. Programs and data files will be password controlled."

5.8
Excess Payments into Pension Fund, Ontario Northland Transportation Commission

The Commission and its two wholly-owned subsidiaries provide a variety of transportation and communications services in northern Ontario. The Commission's consolidated financial statements for the year ended December 31, 1985 are reproduced in Volume 2 of the 1985-86 Public Accounts.

The Commission operates a Pension Fund for its employees. The Fund balance for the year ended December 31, 1985 totalled $143 million.

SUMMARY

OBSERVATIONS

Based on our current year's audit we were generally satisfied with the Commission's records and systems of internal control. However, one matter warranted attention.

- **Over the last two years the Commission used surplus cash from operations to make special contributions into the pension fund totalling $6,838,118. These payments were in addition to those required by the pension fund.**

COMMENTARY

A triennial actuarial review of the Commission's Pension Fund disclosed an unfunded liability of $33,837,043 as at December 31, 1982. The regulations under the Pension Benefits Act require the Commission to make annual payments of $3,345,117 into the Fund in respect of this unfunded liability.

In the past two years, however, the Commission made additional payments over and above this required amount, $3,837,000 in 1984 and $3,001,118 in 1985. The latter payment was made despite a report by the Fund's actuaries in April 1985 indicating a decrease of $16,899,779 in the Fund's overall unfunded liability as of December 31, 1984.

Section 37 of the Ontario Northland Transportation Commission Act requires that *"all surpluses shall be paid into the Consolidated Revenue Fund at such times and in such amounts as the Lieutenant Governor in Council may direct."* **Accordingly, we questioned the practice of making special pension payments rather than returning surplus cash to the Province particulary when:**

- **there is no legal or actuarial requirement to do so;**
- **unlike private sector corporations, there is no income tax advantage in doing so; and**
- **special payments are not being made to other public sector pension plans such as the Public Service Superannuation Fund and the Teachers' Superannuation Fund.**

We recommended that the practice of utilizing surplus funds to make special pension payments rather than returning such surpluses to the Province be reviewed with the Ministry of Northern Development and Mines and the Ministry of Treasury and Economics.

RESPONSE

The Chairman of the Commission replied to our report on September 8, 1986.

"It is our view that we are supposed to operate with leanings towards the principles of the private and commercial sectors. This approach is suggested by such things as our Schedule II status, and the impetus of the Memorandum of Understanding, we cannot agree with your comment regarding the retirement of debt. Additionally, we would argue with your definition that the funds used were in fact surplus."

5.9

Observations re Salary Administration, Ontario Waste Management Corporation

The objectives of the Corporation, established in 1981, include the development, operation and maintenance of facilities for the transmission, treatment and disposal of waste and sewage.

The Corporation's audited financial statements for the year ended March 31, 1986 are reproduced in Volume 2 of the 1985-86 Public Accounts.

In 1986 salaries and benefits paid to the Corporation's 67 employees totalled $2.5 million.

SUMMARY

OBSERVATIONS

Part of our 1986 audit dealt with the Corporation's salary administration.

- **We questioned the need for an independent consulting study on staff compensation. We also questioned the resultant salary levels and salary adjustments.**

COMMENTARY

Salary Administration

Background

All agencies, when established, are allocated by Management Board of Cabinet to one of four schedules as defined in the Ontario Manual of Administration. Since its inception in 1981, the Ontario Waste Management Corporation has been classified as a Schedule II Operational Agency. By definition, therefore, the Corporation manages its own administrative support services and does not appoint its staff under the Public Service Act. Also, while the administrative policies established by Management Board of Cabinet do not apply to the Corporation, the Corporation is governed by policies specified in a Memorandum of Understanding with the Minister of the Environment.

As of the date of this report, the Corporation was operating under a Memorandum of Understanding entered into in 1984. One operating criterion contained in this Memorandum requires the Corporation to establish for its employees, classifications and salary ranges taking into consideration those offered by the Civil Service Commission (CSC).

In 1982, with the help of a management consulting firm, the Corporation established salary levels for its employees. The management consulting firm continued to provide ongoing advice. In 1985 the firm conducted another comprehensive study on the Corporation's salary administration system for a fee of $27,000. The study evaluated the job content of all 55 of the Corporation's permanent (36) and contract (19) employee positions established as of March 1985. The study then compared the Corporation's salary levels to a survey of 302 industrial organizations such as manufacturers, banks and insurance companies. The resulting report of the consulting firm identified salary ranges which were adopted by the Corporation for its employees.

Furthermore, we were informed that the consulting firm had provided guidance in the establishment and training of a corporate job evaluation committee.

Need for Consulting Study

Our consultations with CSC revealed that the same management consulting firm hired by the Corporation had been retained periodically by CSC to carry out compensation comparisons between the public and private sectors, and also specifically within the public sector.

With information and expertise readily available at CSC, we questioned the need for an independent consulting study especially since the study did not include any specific comparisons with the public sector. We also questioned the need for the Corporation to consult with this firm once every two or three years on matters pertaining to position reviews and salary adjustments as was decided by the Corporation's board of directors in February 1986.

Results of Consulting Study

Salary Levels

We were unable to satisfy ourselves that the Corporation's classification and salary levels took into consideration those established by CSC. For instance, **we noted significant differences in salaries being paid by the Corporation to its five senior management positions when compared to CSC established ranges for what we considered to be similar jobs.** Actual yearly salaries paid by the Corporation to the five senior officials as at April 1, 1986 ranged from $74,300 to $91,380 compared to ranges from $62,400 to $79,200 for comparable senior level executive positions established by CSC for the Ontario Public Service.

Additionally, we noted that two other Schedule II Crown agencies, with significantly larger operations and staff than the Corporation, paid their senior management within ranges established by CSC.

For those positions which management considered to be unique to the Corporation, we recommended CSC be consulted to ensure salary ranges were equitable with those established for the Ontario Public Service.

Salary Adjustments

As at March 31, 1986, of the employee positions assessed by the management consulting firm, there were 14 employees (10 permanent and 4 contract) identified in the consulting study as earning below a certain minimum level. These employees received adjustments, some retroactively to January, 1985, to bring their salaries up to the minimum level. The resulting adjustments ranged from 3 per cent to 33 per cent.

During our discussions with CSC, we were advised that decisions to adjust salary levels are not automatically based on consulting surveys alone. Many other factors such as types of companies in the surveys, comparability of jobs, vacancy levels, differences in each organization's value systems, government budgets and restraint programs, etc., influence the decision on whether or not salary levels are changed. As such, we questioned the Corporation's decision to adjust salary levels based on the consulting survey alone.

Cost of Living/ Merit Increases

During the 1986 fiscal year the 10 permanent employees who had received retroactive salary adjustments also received cost of living/merit increases. Of these employees, five received increases in excess of 10 per cent.

Additionally, seven employees who were within the ranges identified by the study, received cost of living/merit increases in excess of 10 per cent, averaging 15.6 per cent.

Guidelines established by CSC for 1985 for most job classes limited cost of living increases to 5 per cent and merit increases to between 2 per cent to 5 per cent respectively. We recognized that these guidelines applied primarily to ministries and agencies whose classifications and salary ranges followed those as promulgated by CSC. However, in our view the Corporation should have more closely followed the intent of these guidelines.

RESPONSE

The reply from the Chairman and President of the Corporation, received on October 9, 1986, included the following comments.

Need for Consulting Study

"As the Provincial Auditor states in his report, the Ontario Waste Management Corporation has been classified as a Schedule II Operational Agency since its inception in 1981. This means that OWMC manages its own administrative support systems and does not appoint its staff under the Public Service Act.

"In 1982, the Salary & Benefits Committee of OWMC's Board of Directors recognized the need for a sound compensation program which would attract the calibre of staff needed for the Corporation to meet its business objectives. They selected a system of job evaluation and salary administration developed by a well-known, international consulting firm. This system establishes salary ranges by awarding points for the know-how, problem solving and accountability in each position, and provides an effective basis for remunerating employees in different positions with comparable job content. To keep up-to-date on compensation trends, the Corporation participates annually in the consulting firm's surveys of compensation practices at a cost of approximately $1,500. The only additional cost envisaged to maintain the system is the periodic involvement of the consulting firm every three or four years to audit the system, thus ensuring that it continues to remain fair and competitive.

"To attract and retain employees with the types of expertise and experience required, the Board of Directors decided that it should target salaries for competent performance in relation to a selected number of organizations, which included Ontario crown corporations, that participated in the consulting firm's annual compensation survey.

"In 1984, the Corporation re-examined its job evaluation system and established an in-house job evaluation committee. The purpose of the job evaluation committee was to review positions and establish job content values. Since an effective job evaluation system had already been selected and established in 1982, it was considered logical to use the services of the consulting firm who created this system to train members of this new committee in its use. This would enable OWMC to administer the system on its own in the future. Training expertise on this specific system was not available within the Civil Service Commission.

"The review of existing salary ranges was in accordance with OWMC's salary administration policy issued in March, 1983, which stipulates that job descriptions will be updated as required and salary ranges will be reviewed annually to ensure they remain fair and competitive."

Results of Consulting Study

Salary Levels

"OWMC's job classifications were established in 1982. Although the Corporation has been subject to four provincial audits since then, it is only now, with the current, fourth audit, that this matter has been raised.

"Information on job classifications and salary ranges in the Civil Service Commission is used to ensure that salary ranges for professional and clerical positions in the Corporation are comparable.

"With regard to the five senior level positions referred to in the Auditor's comments, salary ranges for these positions were established to reflect the specialized qualifications and experience required, as well as comparisons made to similar positions within other crown corporations and the private sector.

"Salaries for these positions are similar to Ontario Public Service senior executive salaries proposed in Management Board of Cabinet's study released in March, 1986 entitled: 'Managing Human Resources in the Ontario Public Service'.

"The study states that Ontario Government executives are paid within very narrow salary ranges. These include ECP 4 and ECP 5 positions, which the Auditor compares to OWMC's senior level positons. As well, the salaries of ECP 4 and ECP 5 positions are currently 19 and 24 per cent respectively below new average salaries proposed in this study. Thus, the salaries of the five senior level positions in OWMC would be well within the Ontario Public Service ranges if the proposals contained in Management Board of Cabinet's report are adopted."

Salary Adjustments

"The increases in salary levels referred to were not based on a consulting survey alone. They were based on an internal review conducted by the Corporation's job evaluation committee, which examined all positions in the Corporation based on updated position descriptions. The 14 salary revisions referred to were reclassifications of positions from one salary level to another and merely brought the affected employees to the minimum of their ranges in accordance with our salary administration policy. This policy states that annual salaries will be within established ranges."

Cost of Living/ Merit Increases

"The cost of living/ merit increases for 1985-86 referred to were, in reality, performance increases designed to establish the employee in the appropriate position in the salary range. These salary increases for 1985-86 averaged under 6%, which was well below the CSC guidelines totalling 10% for most job classifications."

5.10
Newly Established Crown Agencies

Five Crown agencies subject to the Audit Act were established during the 1986 fiscal year. Of these the Environmental Compensation Corporation, Ontario Pavilion Expo 86 and The Ontario Film Development Corporation are agencies of the Crown and are audited by our Office. The Corporation of the Improvement District of Shedden and Science North are Crown controlled corporations, each audited by a public accounting firm.

Environmental Compensation Corporation

This Corporation was established effective November 29, 1985 under the Environmental Protection Act. The Corporation's mandate is to receive applications for compensation from people who have suffered loss or damage because of a polluting spill and to make compensation payments to these people.

Ontario Pavilion Expo 86

This Corporation was established by Letters Patent under the Corporations Act (Ontario) on December 3, 1985. The objects of the Corporation were to showcase the Province of Ontario to all people attending Expo 86 in Vancouver, British Columbia and to demonstrate technological advances achieved in the areas of transportation and communications in the Province of Ontario. The Corporation established, operated and maintained a pavilion at the Expo 86 site. It is expected that the corporation will be dissolved at the end of the project.

The Ontario Film Development Corporation

This Corporation was established effective January 30, 1986 by a regulation made under the Development Corporations Act. Its objects include creating and stimulating employment and investment in Ontario by developing and promoting resident Ontario companies and projects producing, distributing and marketing film, television, video works and related products created by Canadians.

Corporation of the Improvement District of Shedden

This Corporation was created effective November 1, 1985 under the Municipal Act. The Corporation came into being as a result of an application to separate the Geographic Township of Shedden from the Geographic Townships of Lewis, Spragge, Long and Striker, all within the Corporation of the Township of the North Shore.

Science North

This Corporation was established by Letters Patent under the Corporations Act (Ontario) as the Sudbury Science Centre on December 8, 1980. The Centre was continued under the name of Science North by the passage on January 17, 1986 of the Science North Act. The objects of the Centre include the operation of a museum, science centre and related facilities in Northern Ontario.

CHAPTER 6 - PUBLIC ACCOUNTS OF THE PROVINCE

6.1 Preparation of the Public Accounts

The Public Accounts, which are published in three volumes, are prepared by the Ministry of Treasury and Economics under the direction of the Treasurer of Ontario as stipulated in section 13 of the Ministry of Treasury and Economics Act. This section reads as follows:

> "The Public Accounts for each fiscal year shall be prepared under the direction of the Treasurer and shall be delivered to the Lieutenant Governor in Council and laid before the Assembly not later than the tenth day of the first session held in the following calendar year."

The audit of the Public Accounts consists of an examination of the financial statements of the Province appearing in Volume 1, on which the Provincial Auditor expresses an opinion, together with a review of the other statements and schedules contained in Volume 1.

Volume 2 contains reproductions of audited financial statements of agencies of the Crown and Crown controlled corporations:

(a) in which the Province has an investment, or

(b) which have borrowed from the Province, or

(c) which have borrowed from others with a guarantee by the Province.

Also included in Volume 2 are the audited financial statements of certain significant operational agencies which are funded in whole or in part by revenues generated from their operations.

Volume 3 contains details of the expenditure for each ministry, such as salaries and wages, employee benefits, travelling expenses and other payments. This expenditure is shown under two main categories, Voted Appropriations and Statutory Appropriations. Although the Office does not express an opinion on Volume 3, the information contained therein is reviewed and any comments thereon would be included in this Chapter of our Annual Report.

6.2 Financial Statements of the Province

General

The audited financial statements of the Province for the year ended March 31, 1986 are reproduced as Exhibit 1 of this Report. The financial statements and notes disclose in summary form the financial activities of the Province for the fiscal year, and report on the significant aspects of financial position at the close of the fiscal year.

The transactions of the Province are presented through the Statement of Consolidated Revenue Fund Transactions in summary form under the following three categories of government activity:

> Budgetary transactions, representing the Province's operational activities involving the raising of revenue from various sources on the one hand, and the expenditure for various government programs on the other;
>
> Non-budgetary transactions, representing the lending, investment and trust administration activities; and
>
> Financing transactions, representing borrowing and repayment activities by the Province for its own needs.

The Province also borrows on behalf of Ontario Hydro. Provincial debentures are issued and the proceeds are advanced to Ontario Hydro in exchange for bonds with the same terms and conditions. In any year, the overall end result of these reciprocal transactions is that payments are equal to recoveries. Since these transactions are not part of the Province's own budget plan they are not included in the Statement of Consolidated Revenue Fund Transactions. They are, however, disclosed in Note 6 to the Financial Statements of the Province (see Exhibit 1).

Included in the Statement of Consolidated Revenue Fund Transactions are extraordinary adjustments made to the accounts of the Province in 1986. These adjustments are fully explained in Note 1 to the Financial Statements of the Province (see Exhibit 1).

The Statement of Financial Position reflects the financial claims that have been created by cash transactions. The assets are claims by the Consolidated Revenue Fund on other parties. The liabilities are claims by others on the Consolidated Revenue Fund. Since expenditures on fixed assets do not represent claims on other parties and are not considered to differ from any other service to the public, they are not reported as assets but are expensed as budgetary transactions in the year of acquisition.

Summary of Significant Accounting Policies

On the basis of evidence examined, the Provincial Auditor is required to express an opinion as to the fairness of the Province's financial statements in accordance with the accounting policies stated in the Public Accounts. The Provincial Auditor also expresses an opinion as to whether the stated accounting policies have been applied on a basis consistent with the preceding year.

Accordingly, an integral part of the Province's financial statements is the Summary of Significant Accounting Policies. This Summary appears on page 1-2 of Volume 1 of the 1985-86 Public Accounts, which forms part of Exhibit 1 of this report.

Such Summary is included as an integral part of the financial statements in order to provide the reader with a clear understanding of the principles and methods used to present the financial information contained in the statements. Due to the nature of government accounting, the accounting policies stated in the Summary have particular importance to a reader who may not be familiar with the differences, some of which are significant, between the accounting policies followed by the private sector and those followed by the Province of Ontario.

6.3.

Provincial Auditor's Opinion Explained

General

The Provincial Auditor's Opinion, reproduced in Exhibit 1, represents the result of our audit of the financial statements of the Province. This opinion takes the form prescribed by the accounting profession in Canada. A disadvantage of a standard wording is that the opinion may become a symbol in itself and the specific messages that the auditor wishes to convey may not be clearly understood. In fact, recent events in the private sector provide evidence of what appears to be an "expectation gap" between what an auditor does and what the reader expects the auditor to do. The purpose of this section is to explain, by going through the report phrase by phrase, the message we are trying to convey.

The Provincial Auditor's Opinion essentially consists of two paragraphs. The first paragraph indicates the nature of the work performed. The second paragraph outlines the Provincial Auditor's opinion based on this work.

Our Examination

I have examined the statement of financial position of the Province of Ontario as at March 31, 1986 and the statements of consolidated revenue fund transactions, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions for the year then ended....

The financial statements of the Province are prepared by the Ministry of Treasury and Economics under the direction of the Treasurer of Ontario. The purpose of our examination is to provide an objective look at the information presented in the financial statements and provide an opinion thereon.

Although not specifically mentioned in the Provincial Auditor's Opinion, the Summary of Significant Accounting Policies and the Notes to the Financial Statements are an integral part of the financial statements and are subject to audit.

...My examination was made in accordance with generally accepted auditing standards...

In conducting the audit certain standards are met. These "generally accepted auditing standards" are those set out by the Canadian Institute of Chartered Accountants. These standards relate to the quality and nature of work to be performed.

...and accordingly included such tests and other procedures as I considered necessary in the circumstances...

Many procedures are performed on a test basis. To examine all or most transactions would be both impractical and uneconomical. The auditor's professional judgement dictates both the choice from available procedures and the extent to which they are applied.

Results of our Examination

...In my opinion...

The Provincial Auditor's comments on the financial statements are prefaced with the words "In my opinion". What this means is that we are providing reasonable assurance, not absolute or complete assurance, regarding the financial statements. Absolute assurance is not possible because much of the evidence available to auditors is persuasive rather than conclusive in nature.

To better understand the concept of "reasonable" assurance, it can be viewed with respect to its position on a scale from "no assurance" to "complete assurance". As the extent of work increases the auditor becomes more confident in his opinion on the financial statements. An auditor is never absolutely certain that the financial statements do not contain a material error. However, reasonable assurance is much closer to "complete assurance" than to "no assurance". If stated mathematically, an auditor might say that, "I am ninety-five to ninety-nine per cent confident that the statements do not contain a material error."

...these financial statements present fairly the financial position of the Province as at March 31, 1986 and the results of its operations and changes in its financial position for the year then ended in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies...

The key words in this sentence are "present fairly" and "in accordance with".

By using the words "present fairly", we are not stating that the financial statements are totally accurate, correct, or true. What we are stating is that the statements do not contain errors in aggregate that would affect the substance of the information reported.

For the audit of the Province's financial statements this year, an amount of $60 million was considered to be of a size to affect the substance of the information reported. This is based on our professional judgement and the guidelines outlined in professional literature. It should be noted that $60 million represents approximately one fifth of one per cent of total budgetary expenditures for the current year.

In assessing whether the financial statements "present fairly", we consider whether the underlying accounting records are reliable and the financial information is properly communicated in the financial statements. In this regard, tests and procedures are designed including:

- examination of a sample of transactions to see how effectively the accounting systems prevent and detect errors;
- confirmation of certain balances and transactions to ensure that they are properly recorded;
- review of the estimates and approximations used in the financial statements to ensure they are reasonable; and,
- final review of the financial information presented for overall reasonableness.

In most cases these tests are performed to identify errors significantly less than those that would affect the substance of the information reported.

"In accordance with" deals with the basis of accounting used in the financial statements. This refers to the collection of accounting methods selected by the Ministry of Treasury and Economics for the measurement, classification, and disclosure of financial events and transactions.

The auditor's role is to determine within the context of "presents fairly", whether the accounting policies have been followed, and whether they are appropriate, consistent with the preceding year and reasonable in the circumstances.

...Further, in my opinion, except for the changes in accounting for financial assets which were effectively being repaid out of provincial expenditure appropriations, and for equity holdings in

Crown corporations, as referred to in note 1 to the financial statements, such policies have been applied on a basis consistent with that of the preceding year....

During the current year the government changed certain accounting policies. These changes, with which we agree, are outlined in note 1 to the financial statements. The prior year's figures were not adjusted to reflect these changes and therefore the reader should be aware that direct comparisons between years should not be made without reference to Note 1.

Additional Comment

...In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly.

Volume 1 of the Public Accounts contains the Provincial Auditor's Opinion on the financial statements of the Province. This Volume is published each year prior to the Provincial Auditor's Annual Report.

The Opinion on the financial statements of the Province is only one of many matters the Auditor is required to report in the Annual Report. Consequently, a third paragraph — "In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly" — is added to the Opinion to advise readers of the Public Accounts of the Provincial Auditor's full reporting responsibilities.

6.4
Comfort Letters

Background

During 1981, Ontario Energy Resources Limited (OERL) financed one-half of the purchase price for 25 per cent of the common shares of Suncor Inc. by the issue of promissory notes of $325 million to Sun Company Inc. These notes were guaranteed by Ontario Energy Corporation, the parent company of OERL.

In this connection, the then Treasurer of Ontario issued a comfort letter to Sun Company, Inc. in December 1981, stating that it was the intention of the Government of Ontario to provide the Ontario Energy Corporation with sufficient funds to enable it to discharge its obligations related to the guarantee.

This letter is no longer in force, since during the 1986 fiscal year, the outstanding balance of these notes was discharged from the proceeds of a $294 million grant from the Province to the Ontario Energy Corporation.

Current Status

Resulting from its review of the preceding transaction (as covered in section 4.6 of our 1982 Report), the Standing Committee on Public Accounts recommended in its December 1983 Report to the Legislature that "The Provincial Auditor request, from the Treasurer of Ontario, all relevant information that would enable him to monitor the number and nature of comfort letters issued annually."

In this regard, we were advised on August 8, 1986 by the Deputy Treasurer that there were no letters of comfort from the Treasurer in force on March 31, 1986. However, he also advised that since then, the Treasurer had provided the Chairman of the Canadian Imperial Bank of Commerce with a comfort letter dated June 25, 1986, concerning an undertaking of the Urban Transportation Development Corporation (UTDC).

This letter, in part states that:

"...The outstanding indebtedness of UTDC to the bank presently totalling approximately $85 million, plus outstanding liabilities under forward exchange contracts will continue to be those of the existing UTDC entity until repaid in full. Indeed, it is anticipated the total indebtedness may rise by an additional $10 million to $20 million over the near term and the UTDC board will be required to approve this additional limit and request an appropriate extension of credit facilities from the bank.

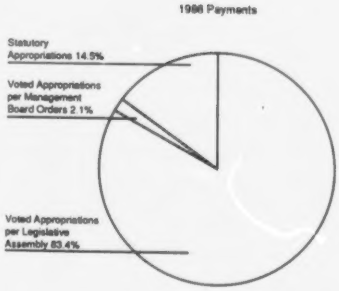
"... Indebtedness by way of bank credit extended to UTDC and its subsidiaries, as described above, will continue to be the responsibility of UTDC. The government anticipates these loans will be repaid in full as UTDC attends to its outstanding contract obligations. However, should losses occur or a residual indebtedness remain the government of Ontario can be expected to ensure that sufficient funds are made available for repayment of the bank in full."

6.5 *Payments out of the Consolidated Revenue Fund*

Payments out of the Consolidated Revenue Fund are of two major types: those pursuant to Estimates including Supplementary Estimates, approved by the Legislative Assembly, and those pursuant to the provisions of various statutes. The former are termed payments from Voted Appropriations while the latter are termed payments from Statutory Appropriations. Voted Appropriations, which are formalized annually by the Supply Act, may be increased by Management Board Orders. The nature of Management Board Orders is more fully explained in Section 6.9.

A third type of payment out of the Consolidated Revenue Fund is that pursuant to delegated authority in the form of Special Warrants. The nature of this authority is more fully explained in section 6.10.

A comparative summary of payments out of the Consolidated Revenue Fund is as follows:



Payments re:	1986 ($ millions)	1985 ($ millions)
Voted Appropriations		
per Legislative Assembly		
Budgetary Expenditure	25,045	22,729
Loans, Advances and Investments	106	118
	25,151*	22,847
per Management Board Orders		
Budgetary Expenditure	594	536
Loans, Advances and Investments	24	—
	618	536
Total Voted Appropriations	25,769	23,383
Statutory Appropriations		
Budgetary Expenditure	3,658	3,166
Loans, Advances and Investments	46	51
Payments from Pension and Related Adjustment Funds	257	229
Trust and Special Purpose Accounts	75	68
Retirement of Loans	346	109
Total Statutory Appropriations	4,382	3,623
Total Payments	30,151	27,006

(*) As explained in section 6.10, there were two special warrants issued in the 1986 fiscal year. Normally all payments made under the authority of special warrants would be classified separately in the foregoing statement; however, due to the circumstances surrounding these special warrants and to maintain comparability of the Voted Appropriations between fiscal years, payments of $7,236,104,000 authorized by these special warrants have been included in payments from Voted Appropriations.

6.6
Voted Appropriations — Comparison of Authorized and Actual Payments

This comparison for the fiscal year ended March 31, 1986 is as follows:

	Authorized ($ millions)	Actual ($ millions)	Actual Under (over) Authorized ($ millions)
Voted Appropriations			
per Legislative Assembly			
Budgetary Expenditure	25,557	25,045	512
Loans, Advances and Investments	115	106	9
	25,672	25,151	521
per Management Board Orders			
Budgetary Expenditure	627	594	33
Loans, Advances and Investments	24	24	—
	651	618	33
	26,323	25,769	554

Overexpenditure of Appropriations

Prior to the 1984 fiscal year Management Board of Cabinet followed the practice of issuing Management Board Orders to increase appropriations after the close of the fiscal year. Since the expenditures were made prior to obtaining Management Board Orders, the existing appropriations had been, in effect, illegally overspent.

As a result of observations made in our 1983 report, this practice was discontinued. In a letter to Deputy Ministers dated January 17, 1984, Management Board of Cabinet stated that "In future, the Secretariat will no longer recommend that retroactive Management Board Orders be issued."

For the 1986 fiscal year, two ministries failed to obtain Management Board Orders by the year end to authorize expenditures in excess of existing appropriations. As a result, existing appropriations were illegally overspent by a total of $77,728. Details of these overexpenditures are as follows:

- The Ministry of Consumer and Commercial Relations expended $76,043 more than the appropriation for the Systems Development Services Activity (Vote 1701, Item 8) of the Ministry Administration Program. This resulted from an inadvertent error by the Ministry in its year end submission for a Management Board Order.
- The Ministry of the Attorney General expended $1,685 in excess of the appropriation for the Civil Law Division Activity (Vote 1604, Item 2) of the Crown Legal Services Program. This was caused by an oversight in the Ministry's expenditure monitoring system.

6.7
Statutory Appropriations

Payments from Statutory Appropriations represent those where the specific authority to spend money from the Consolidated Revenue Fund is expressly contained in a statute of the Legislature.

As such, Statutory Appropriations are not voted upon and do not require the approval of the Legislature. However, for the information of the Legislature, they are provided for in the annual Estimates and represent the amount the government estimates will be spent in accordance with the authority given in the various statutes. Unlike Voted Appropriations, Statutory Appropriations do not require Management Board Orders when spending exceeds the amount provided for.

During the 1986 fiscal year, Statutory Appropriation payments made under the authority of 26 Acts totalled $4,383 million. This expenditure constituted 14.5 per cent of the total payments out of the Consolidated Revenue Fund (1985, 13.4 per cent).

A comparative summary, by authorizing legislation, of such payments exceeding $50 million is as follows:

	1986 ($ millions)	1985 ($ millions)
Financial Administration Act	3,337	3,087
Teachers' Superannuation Act	294	209
Public Service Superannuation Act	164	164
Superannuation Adjustment Benefits Act	125	63
	3,920	3,523

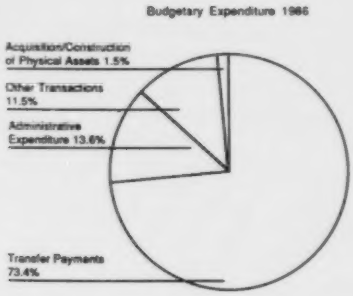
Public Debt interest expenditure of $3,250 million and $2,922 million for fiscal years 1986 and 1985 respectively is included in the amount shown under the Financial Administration Act.

Excluded from the preceding figures are Statutory Appropriations relating to Ontario Hydro transactions which can be summarized as follows:

	1986 ($ millions)	1985 ($ millions)
Financial Administration Act		
Ontario securities issued on behalf of Ontario Hydro:		
— interest paid	916	874
— securities retired	175	80
Power Corporation Act		
Advances (net) to Ontario Hydro	(17)	719
	1,074	1,673

6.8 Statement of Budgetary Expenditure

The Statement of Budgetary Expenditure is contained in Volume I of the 1985-86 Public Accounts and is reproduced in Exhibit 1 of this Report. A more detailed analysis of total budgetary expenditure can be obtained by the use of the standard accounts classifications. Under these classifications the budgetary expenditure for the 1986 and 1985 fiscal years, as shown on pages 2-16/17 and 2-15 respectively of Volume I of the Public Accounts, may be summarized as follows:



	1986 ($ millions)	%	1985 ($ millions)	%
Transfer Payments	21,499	73.4	19,453	73.6
Salaries and Wages	2,438	8.3	2,258	8.5
Other Transactions				
— Public debt expenditure (interest on debentures, etc.)	3,250	11.1	2,922	11.1
— Other	118	0.4	76	0.3
Services	1,098	3.7	983	3.7
Acquisition/Construction of Physical Assets	425	1.5	401	1.5
Supplies and Equipment	522	1.8	462	1.8
Employee Benefits	386	1.3	346	1.3
Transportation and Communication	253	0.9	236	0.9
	29,989		27,137	

	1986 ($ millions)	%	1985 ($ millions)	%
Less: Recoveries from other Activities, Ministries, etc.	692	2.4	706	2.7
Total Budgetary Expenditure	29,297	100.0	26,431	100.0

Transfer payments represent expenditure made to individuals, organizations and other levels of government for which the Province does not directly receive goods or services. Such expenditure is made in accordance with legislation or established ministry policy.

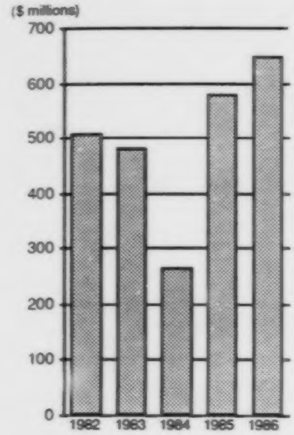
Recoveries from other Activities and Ministries relate mainly to costs incurred by certain ministries, on behalf of other ministries, which are subsequently recovered from the benefiting ministries. For Public Accounts presentation purposes, these recoveries are generally not netted against the particular expenditure category or sub-category (e.g. salaries and wages, services, etc.) but are deducted in total from aggregate expenditure.

The other standard accounts classifications are largely self-explanatory; however, a more detailed description of the type of expenditure included in each classification is contained on page ix of Volume I of the 1985-86 Public Accounts.

During the 1986 fiscal year approximately 78 per cent of the total transfer payments (1985, 80%) was expended by four ministries. A summary of this expenditure for the four ministries, including identification of major categories exceeding $150 million, is as follows:

	1986 ($ millions)	1985 ($ millions)
Ministry of Health		
Operation of hospitals and related facilities	4,455	4,109
Payments re physicians' and practitioners' services under OHIP	2,724	2,417
Ontario Drug Benefit Plan	344	290
Extended Care Health Insurance Benefits	265	251
Home Care Assistance	154	104
Other transfer payments	807	732
	8,749	7,903
Ministry of Education		
Grants for elementary and secondary education (to school boards)	3,360	3,102
Other transfer payments	17	17
	3,377	3,119
Ministry of Community and Social Services		
Provincial and municipal allowances and benefits	1,368	1,249
Childrens' Social Services	455	382
Adults' Social Services	337	303
Developmental Services — Adults and Children	224	203
Other transfer payments	71	59
	2,455	2,196
Ministry of Colleges and Universities		
Grants for universities and related organizations	1,389	1,297
Grants for colleges of applied arts and technology, etc.	560	515
Other transfer payments	143	353
	2,092	2,165
Total	16,673	15,383

6.9
Management Board Orders



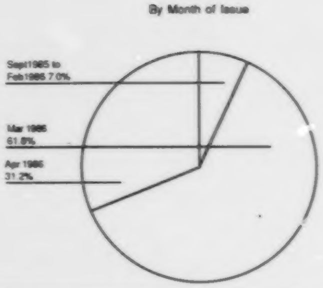
Section 5 of the Management Board of Cabinet Act provides that, where an appropriation is exhausted or a sufficient amount was not provided and the public interest or the urgent requirements of the public service necessitate further payments, the Board may make an order authorizing payments to be made against such amounts as it considers proper.

A summary of the Management Board Orders issued for the past five fiscal years is as follows:

	Number of Board Orders	Number of Items	Authorized Amounts $
1986	88	334	651,459,900
1985	103	297	580,422,400
1984	94	265	267,785,900
1983	90	348	481,314,900
1982	108	394	508,421,348

By way of additional information, the Management Board Orders for the 1986 fiscal year are summarized as follows by month of issue:

Month of Issue	Number	Authorized $	%
September 1985 to February 1986	29	45,824,900	7.0
March 1986	31	402,219,900	61.8
April 1986	28	203,415,100	31.2
	88	651,459,900	100.0



A detailed listing of Management Board Orders, showing the amounts authorized and expended, is included as Exhibit 2 of this Report.

In accordance with a Standing Order of the Legislative Assembly, the preceding Management Board Orders have been printed in The Ontario Gazette, together with explanatory information.

6.10
Special Warrants

Section 4 of the Management Board of Cabinet Act provides for the issue of a special warrant, when the Legislature is not in session, authorizing payment of an amount required to meet an expenditure not foreseen or provided for by the Legislature and which is urgently required for the public good.

Two special warrants were issued during the year ended March 31, 1986. These special warrants were approved by an Order in Council dated April 1, 1985. Payments of $7,236,104,000 were authorized for the purpose of providing for general and necessary government expenditures (as well as the general and necessary expenditures of the Offices of the Chief Election Officer, Ombudsman and Provincial Auditor) on or after April 1, 1985.

As background, these two special warrants were necessitated by the fact that a general election was called and parliament was dissolved in March 1985. The Thirty-Third Parliament did not convene until June 4, 1985. Normally, payments may be made from appropriations prior to passage of the Supply Act provided a motion of interim supply is adopted by the Legislature. However, since the Legislature did not convene prior to the beginning of the fiscal year on April 1, 1985, a motion of interim supply was not possible. Therefore, special warrants were required in order to authorize all non-statutory expenditure on and after April 1, 1985.

The amounts of these special warrants were based on the anticipated cash requirements for the first three months of the 1986 fiscal year, and on the premise that expenditure would continue up to the authorized limit thereof, and then under the authority of a motion of interim supply, which was carried by the Legislature on July 2, 1985. On this basis, the full authorized amount of $7,236,104,000 was expended.

The Supply Act, 1986 received Royal Assent on February 12, 1986. It should be noted that the total estimates and supplementary estimates approved by the Act were exclusive of the amount authorized by the two special warrants.

6.11

Transfers Authorized by Board of Internal Economy

Section 88 of the Legislative Assembly Act reads:

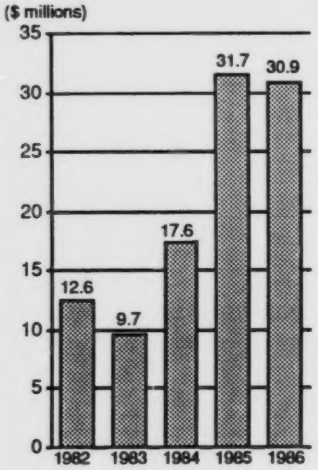
> "The Board of Internal Economy may authorize the transfer of moneys from one item of the estimates of the Office of the Assembly to another item within the same Vote and the Provincial Auditor shall make special mention in his report of any transfer under this section."

In respect of the 1985-86 expenditure estimates, the following transfers totalling $21,527 were made within Vote 1101:

From: Item 4 Sessional Requirements	$21,527
To: Statutory Contribution to Legislative Assembly Retirement Allowances Account, the Legislative Assembly Retirement Allowances Act	21,527

6.12

Write-Off of Uncollectible Accounts



Summary of losses deleted from accounts by year

Under Section 5 of the Financial Administration Act, the Lieutenant Governor in Council, on the recommendation of the Treasurer, may delete from the accounts any amount due to the Crown deemed uncollectible. The losses deleted from the accounts during any fiscal year are to be reported in the Public Accounts.

The following comments are provided for some of the larger write-offs in the 1986 fiscal year.

The Ministry of Revenue wrote off $16.4 million with respect to various unpaid taxes and GAINS overpayments. The major write-offs were as follows:

	($ millions)
Retail Sales Tax Act	8.2
Corporations Tax Act	6.3
Tobacco Tax Act	1.3

The Ministry of Agriculture and Food wrote off $3.9 million related to guaranteed bank loans under the Ontario Farm Adjustment Assistance Program.

The Ministry of Consumer and Commercial Relations wrote off $4 million with respect to uncollectible claims and judgements pertaining to the Motor Vehicle Accident Claims Fund.

Uncollectible accounts totalling $3.1 million relative to fines, costs and fees owed to Provincial Courts were written off by the Ministry of the Attorney General.

6.13

Extraordinary Adjustments

As announced in the October 24, 1985 Ontario Budget, action was taken to improve the presentation of the Province's financial affairs. Adjustments were made during the fiscal year and were not applied retroactively. They were as follows:

- The removal from the Province's accounts of financial assets where the funds required to repay the advances and loans were effectively provided out of provincial expenditure appropriations;
- The revaluation of financial assets when it was determined that the value of the underlying security for advances had diminished, and when the Province's asset was not likely to be fully recovered;
- The write down of investments which took the form of equity holdings in Crown corporations to a nominal value of $1.

These adjustments, totalling $3,671 million, are summarized as follows:

1. Write-off of $1,433 million in obligations to the Province by the repeal of Acts:
    - $969 million and $464 million in debentures held by the Ontario Universities Capital Aid Corporation and the Ontario Education Capital Aid Corporation, respectively.

2. Write-off of $1,214 million by Order in Council under the Financial Administration Act:
    - $428 million related to advances made to the Ontario Land Corporation for the acquisition of lands.
    - $325 million in connection with a loan made to the Ontario Energy Corporation with respect to the purchase by its wholly owned subsidiary, Ontario Energy Resources Limited, of approximately 25% of the outstanding common shares of Suncor Inc.
    - $184 million in connection with advances to the Ontario Housing Corporation.
    - $154 million related to loans made to municipalities for investments in water treatment and waste control facilities.
    - $80 million with respect to loans made to public hospitals.
    - $40 million related to advances to the Ontario Mortgage Corporation for mortgages.
    - $3 million in connection with advances to the Development Corporations.
3. Write down of $519 million Provincial equity in water treatment and waste control facilities and in Crown corporations:
    - $352 million investment in Water Treatment and Waste Control Facilities.
    - $98 million in shares of the Ontario Energy Corporation.
    - $37 million in shares of the Urban Transportation Development Corporation Ltd.
    - $25 million investment in the Liquor Control Board of Ontario.
    - $7 million in shares of the Ontario Development Corporation.
4. Payments by the Province of $505 million to discharge the following:
    - $294 million to the Ontario Energy Corporation to allow it to discharge its remaining obligations to the Sun Note Company related to the 1981 purchase of a 25% shareholding in Suncor Inc.
    - $108 million to school boards to restore cash advances to the previous level of 7%.
    - $90 million to municipal transit systems to honour commitments made which were unfunded.
    - $13 million to hospitals to honour commitments made which were unfunded.

Detailed information relating to these extraordinary adjustments is contained in Note 1 of the Province's Financial Statements (Exhibit 1 to this Report).

CHAPTER 7 - OFFICE OF THE PROVINCIAL AUDITOR

7.1
Independence of the Provincial Auditor

If the opinions and reports presented by the Provincial Auditor are to be prepared without bias or interference, the Office must be granted as much independence as possible. It must also be perceived to be independent by all those whom the Office's work affects including the general public.

To ensure such independence, the Legislature has enacted a separate act, the Audit Act, setting out the mandate of the Provincial Auditor.

The Provincial Auditor is appointed an officer of the Legislative Assembly, and therefore is not an employee of the Government. The appointment is made by the Lieutenant Governor in Council on the address of the Assembly after consultation with the chairman of the Standing Committee on Public Accounts. The Auditor may be removed for cause at any time by the Lieutenant Governor in Council on the address of the Legislative Assembly.

Administratively, the Office of the Provincial Auditor is distinctly separate from any government ministry or Crown agency, and its employees are not members of the public service. The Office's resource requirements are subject to approval by the Board of Internal Economy, an all-party legislative committee independent of the government's administrative process.

The Audit Act requires the Provincial Auditor to present the Office's annual expenditure estimates to the Board for review and approval. The chairman and vice-chairman of the Standing Committee on Public Accounts have the option of attending the review of the estimates.

In accordance with section 28 of the Audit Act, the accounts related to the Office's expenditure for the year ended March 31, 1986 were audited by a firm of chartered accountants. The audited statement of expenditure, together with the report have been submitted to the Board of Internal Economy and tabled in the Assembly. They are included as Exhibit 7 of this Report.

7.2
Office Goals

Primary Goal

The primary goal of the Provincial Auditor is:

- To assist the Legislature in holding the Government and its administrators accountable by reporting to the Legislature on the quality of the administration's stewardship of public funds.

The Provincial Auditor seeks to achieve this goal by examining the accounts of the Province and presenting an Annual Report to the Legislature.

Secondary Goal

The Provincial Auditor's secondary goal can be expressed as follows:

- To assist deputy ministers/agency heads in holding their administrations accountable by reporting to them on the quality of the ministries'/agencies' stewardship of public funds.

This goal does not fall under the legislative requirements in the Audit Act. With respect to agencies, the Provincial Auditor's role is generally stipulated in the enabling legislation. This is not the case, however, for ministries. The Provincial Auditor reports to deputy ministers not because of legislative requirement, but because such reporting is recognized as a constructive extension of the Office's primary goal and it is also seen to be in the best interests of good government administration.

The Office's secondary goal is achieved when the Provincial Auditor reports to a deputy minister or to an agency head at the conclusion of each audit. These reports consist of assessments of significant areas covered in the course of audit together with recommendations for improvement.

7.3
Audit Responsibilities

The audit universe in government is comprised of two main audit areas:

- the audits of ministries and the Province's financial statements (public money forming part of the Province's Consolidated Revenue Fund);
- agencies of the Crown and Crown controlled corporations (as defined in the Audit Act).

The participants in the audit process include internal auditors, public accounting firms and the Provincial Auditor.

Internal Auditors

Internal auditors undertake audits of their respective ministries and agencies on behalf of management. Their responsibilities include the auditing of both financial and management controls.

Financial controls focus on the safeguarding of assets and the provision of essential financial information. Management controls are primarily concerned with value for money and accountability considerations.

Internal auditors act as key advisors to management by helping to ensure that control procedures are reliable. They generally report to the respective department head and the deputy minister or, in the case of Crown agencies, to the agency head.

In order to avoid duplication of effort, the Office relies, wherever possible, on work that has been done and on reports that have been issued by ministry and agency internal audit branches.

At or near the commencement of each audit, the auditor in charge meets with the director of the ministry's or agency's internal audit branch to determine the nature and extent of internal audit reviews conducted during the period subsequent to our previous audit of the ministry or agency. As part of the process, the internal audit working paper files, reports to management and replies from management are reviewed.

Based on this review, our Office's audit work is modified to avoid areas that have already been adequately covered by the internal auditors.

Public Accounting Firms

Public accounting firms are involved in the audits of some agencies of the Crown and Crown controlled corporations.

A listing of the seven agencies of the Crown audited by public accounting firms for the year ended March 31, 1986 is included as part (iii) and (iv) of Exhibit 6. The 39 Crown controlled corporations audited by public accounting firms for the year ended March 31, 1986 are also listed as part of Exhibit 6.

Agencies of the Crown

Section 9(2) of the Audit Act stipulates that public accounting firms auditing agencies of the Crown must perform the audit under the direction of, and report to, the Provincial Auditor.

Crown Controlled Corporations

Under section 9(3) of the Audit Act, public accounting firms auditing Crown controlled corporations must present a copy of their completed audited financial statements to the Provincial Auditor together with a copy of their findings and recommendations to management (management letter).

Matters of interest or significance raised in management letters may be subsequently included by the Provincial Auditor in the Annual Report.

Section 9(3) of the Audit Act permits the Provincial Auditor to review other auditors' working papers and other documents, and obtain explanations and information about the nature and extent of the audit work carried out and the results obtained.

Where the Provincial Auditor believes that the information, explanations and documentation obtained are insufficient, he can conduct, or have conducted, such additional examination as is considered necessary.

Currently the Office reviews working papers and other documents on a cyclical basis of at least once in a four year period.

The Provincial Auditor

Primary Audit Responsibilities

The primary audit responsibilities of the Provincial Auditor involve the examination of the accounts of the Province and the accounts of agencies of the Crown.

Accounts of the Province

In conformity with section 9(1) of the Audit Act, all ministries are subject to legislative audit. The audits, when combined with audit activities related to the accounts of the Province, enable the Provincial Auditor to express an opinion on the Province's financial statements. A listing of the ministry audits covered by this Report appears in Exhibit 5.

Accounts of Agencies of the Crown

Section 9(2) of the Audit Act states that, where the accounts and financial transactions of an agency of the Crown are not audited by another auditor, the Provincial Auditor is to perform the audit. For the year ended March 31, 1986, the Provincial Auditor had direct audit responsibility for 67 agencies of the Crown pursuant to his appointment as auditor by shareholders, governing bodies or under various statutes. These agencies are listed as parts (i) and (ii) of Exhibit 6 of this Report.

Additional Audit Responsibilities

Under section 16 of the Act, the Provincial Auditor is required to examine and report on any matter respecting the Public Accounts if directed by the Standing Committee on Public Accounts.

Section 17 of the Act requires the Provincial Auditor to undertake special assignments requested by the Assembly, the Standing Committee on Public Accounts (by resolution of the Committee), or by a minister, provided that these special assignments do not take precedence over the Auditor's other duties. The Provincial Auditor can decline an assignment referred by a minister if, in the opinion of the Auditor, it conflicts with other duties.

7.4
Audit Activities

Attest and Compliance

In order to express a professional opinion (i.e. attest) on the financial statements of the Province and numerous agencies of the Crown, audits are conducted in accordance with generally accepted auditing standards.

All ministry and agency audits include such tests and other procedures as are considered necessary in the circumstances. Compliance with existing statutes, regulations and administrative requirements is also reviewed.

Transfer Payments

Transfer payments represent over 70 per cent of government expenditures. Commonly called grants, such payments represent expenditures for which the Province does not directly receive goods or services. They may include payments for specific purposes (such as the funding of school boards and universities) or the unconditional transfer of moneys (such as per capita grants to municipalities).

The Office's attest/compliance activities involve the testing of selected payments, including transfer payments, for proper authorizations and calculations, and for compliance with legal and administrative requirements.

Value for Money

In addition to the preceding activities of an attest/compliance nature, the Audit Act requires the Office to report on any cases observed where money has been spent without due regard to economy and efficiency, or where appropriate procedures were not taken to measure the effectiveness of programs. This is commonly known as the value for money audit mandate.

The Office undertakes value for money reviews of government programs and activities. These reviews are designed to assess components of the management process as they relate to economy, efficiency and procedures to measure effectiveness.

It must be stressed that it is not part of the Office's mandate to evaluate the effectiveness of programs, or to develop standards to measure efficiency of program delivery. These are ministry/agency management functions. The Provincial Auditor's responsibility lies in assessing the extent to which these functions have been carried out by management.

Transfer Payments

Government ministries are responsible for ensuring that funds provided in the form of transfer payments are well managed by the recipients, that is, spent with due regard for economy, efficiency and effectiveness. Value for money auditing can assist funding ministries/agencies in the fulfillment of this responsibility.

The impetus for such auditing should come from the funding ministries/agencies themselves, with audits being conducted by the recipients' appointed auditors or by the internal audit staff of the funding ministries.

The Provincial Auditor is not directly involved in this value for money audit process. Indirect involvement may arise, however, when the Office is assessing the steps taken by a ministry to satisfy itself that funds provided to organizations are being well managed.

Other Audit Matters

Inspection Audits of Transfer Payment Recipients

Inspection audits are defined as examinations of accounting records. They are designed to determine whether funds have been spent for the purpose for which they were provided. As such, they do not specifically involve value for money considerations. However, observations of such a nature may arise as a by-product of inspection audits.

Section 13 of the Act permits the Provincial Auditor to perform inspection audits of transfer payments made by the Province or any agency of the Crown, and to obtain a full accounting of the disposition of such payments from the recipients. The Office conducts inspection audits where circumstances warrant the extension of a ministry or agency audit.

Ministry internal auditors may also carry out inspection audits pursuant to the terms of agreements with the grant recipients.

EDP Component of Audits

Government use of Electronic Data Processing (EDP) systems for financial and other management purposes has increased dramatically in recent years.

The Office examines the functioning of EDP systems by evaluating systems of internal control and conducting tests to assess the extent to which the system can be relied upon to provide accurate information. In addition to internal controls, the Office may also review the acquisition and overall management of EDP facilities.

The Office's EDP and Resources Branch audits the government's central computer facilities and other complex EDP systems. It also assists other branches of the Office when technical expertise is needed to audit computer applications or to test hardware/program controls.

Scheduling of Audit Activities

Ministry Audits

The Office conducts ministry audits on a cyclical basis. This means that, in addition to the annual attest audit work required in ministries for the expression of an opinion on the Province's financial statements, audit activity is conducted in some ministries every year, in others every second year, and in the remaining ministries every fourth year. The frequency of ministry audits depends on a number of factors, including total expenditures, diversity and complexity of operations, and the extent of significant regulatory responsibilities.

These cyclical ministry audits are primarily value for money oriented, normally done on a program/activity basis. The audits are designed to cover all major programs and activities over a four year period.

Audits of ministry expenditure systems that are processed centrally, are done on a government-wide basis at least once over a four year period. Ministry financial systems that are not centralized are done on a ministry by ministry basis, as are the major revenue activities across government.

Agency Audits

Agency of the Crown audits are always conducted on an annual basis. Depending on the dollar values involved, and the extent and complexity of agency operations, Office staff may conduct interim audits to reduce the work load at the end of the year. In addition to the regular attest/compliance audit activities, the Office reviews management's attention to economy and efficiency, as well as measurement of the effectiveness of agency operations.

7.5
Annual Report

Reporting Responsibility

Under Section 12 of the Audit Act, the Provincial Auditor is required to report annually through the Speaker to the Legislative Assembly on the results of his examinations. Essentially, the annual Report includes the following information:

- an opinion on the Province's financial statements as to their fairness and consistency in accordance with stated accounting policies;
- the disclosure of matters of significance noted in the course of audits, including;
  - accounts or essential records improperly maintained;
  - inadequate procedures and rules for the safeguard of public property, the collection of revenue and the authorization of expenditures;
  - money spent without due regard to economy and efficiency;
  - lack of appropriate procedures to measure and report on the effectiveness of programs.

Reporting Process

The main body of the Annual Report consits of sections of audit reports on ministries and agencies. The steps in the preparation of the Annual Report are as follows:

- ministry/agency reports are reviewed by the Office's senior management for matters of significance or interest to the Assembly;
- selected items and relevant ministry/agency responses received up to October 17 only (due to printing deadlines) are included in the Annual Report;
- the Report is tabled in the Assembly and subsequently referred to the Standing Committee on Public Accounts for review;
- ministry/agency responses received after October 17, and pertaining to sections contained in the Report, are forwarded to the Committee;
- the Committee calls upon representatives of the ministries or agencies to discuss selected sections of the Report in meetings open to the general public.

Annual Report Briefings

The first Annual Report briefing was held prior to the tabling of the 1984 Report.

In 1985, the Standing Committee on Public Accounts passed a motion recommending revised briefing procedures. Consequently, arrangements were made for two separate and simultaneous lockups: one for members of the Legislature and their research staff, and one for representatives of the media. The lockups were concluded with a news conference, at which time the Provincial Auditor was available to answer the media's questions.

A similar procedure was followed prior to the tabling of this year's Annual Report.

7.6
Ministry and Agency Reports

Reporting Responsibility

The Provincial Auditor's secondary goal, as previously noted, is to assist deputy ministers or agency heads in holding their administrations accountable. This goal is accomplished by issuing audit reports on the individual ministries and, for agencies of the Crown, issuing reports and expressing an opinion on their financial statements. Exhibits 5 and 6 provide a listing of such audits.

Reporting Process

At the conclusion of each audit the reporting process involves:

- discussion of the draft report with senior officials designated by the ministry or agency, but not including those to whom the final report is to be addressed;
- revision of the draft report, resulting from the discussion or from the final review by senior Office management;
- issue of the final report to the ministry's deputy minister or, in the case of agencies, to the board of directors and the minister of the associated ministry;
- further discussion of the report if requested by the ministry or agency.

7.7
Additional Reporting Matters

Special Assignments

The Office's additional reporting responsibilities, pursuant to sections 16 and 17 of the Act, relate to performing special assignments for the Legislative Assembly, the Standing Committee on Public Accounts or a minister of the Crown. At the conclusion of such work the Provincial Auditor reports to the initiator of the assignment.

During the period of audit activity (October 1985 to September 1986) covered by this Report, the Office issued four reports on special assignments initiated by the Standing Committee on Public Accounts.

Audit Assignment	See Section
— Follow-up re: Algonquin Community College	3.6
— Follow-up re: Hornepayne Town Centre	8.5
— Urban Transportation Development Corporation Ltd.	8.3
— Industrial Accident Prevention Association	8.3

Special Reports

In addition to the annual Report, the Provincial Auditor is permitted, by section 12(1) of the Audit Act, to present a special report to the Speaker of the Assembly at any time and on any matter he believes should not be deferred until the next Annual Report. The Speaker is then required to lay such a report before the Assembly. To date no such special reports have been issued by the Office.

7.8
Public Disclosure of Reports

Annual Report

The Annual Report is normally tabled in the Legislative Assembly by December of each year, at which time it becomes available to the public. The general public may also attend meetings of the Standing Committee on Public Accounts when the Annual Report is being reviewed.

Other Reports

Our individual audit reports issued at the conclusion of each ministry or agency audit, reports to management by the auditors of Crown controlled corporations or our special assignments for a minister, are not laid before the Legislative Assembly or a committee of the Assembly. However, the Standing Committee on Public Accounts or any other committee of the Legislature may, by resolution, request that such audit reports be made available if they are deemed essential or beneficial in the pursuit of the committee's appointed duties. As soon as a report is laid before a committee it becomes a public document.

Draft reports for ministries and agencies are considered to be an integral part of the audit working papers and according to section 19 of the Audit Act, are not required to be laid before the Legislative Assembly or any of its committees.

Reports on special assignments conducted on behalf of the Legislative Assembly, or a committee of the Assembly, become public documents when they are presented.

7.9 *Office Organization and Personnel*

Organization

The Office of the Provincial Auditor consists of eight branches, each headed by a Director. The Director of Administration and Personnel reports to the Assistant Provincial Auditor, and the remaining seven Directors each report to one of two Executive Directors.

The Office has an Executive Committee, made up of the two Executive Directors, the Assistant Provincial Auditor and the Provincial Auditor. The eight branch Directors, together with the two Executive Directors, the Assistant Provincial Auditor and the Provincial Auditor, collectively comprise the Office's Management Committee.

An organization chart of the Office is presented in Exhibit 3 of this Report.

Ministry and Agency Audit Branches (4)

The four audit branches are responsible for the audits of all ministries and agencies of the Crown falling under the following areas: General Government, Justice, Economic Policy and Social Policy. These branches also have responsibility for coordinating the Office's relationship with the external auditors of those Crown controlled corporations for which the Provincial Auditor is not the designated auditor.

Reporting and Standards Branch

The primary responsibilities of this branch are the audit of the Province's financial statements which appear in Volume 1 of the Public Accounts, the preparation of the Annual Report of the Provincial Auditor to the Legislature, the development and maintenance of the Office's audit manual, research and communications and the conduct of post-audit quality control reviews.

EDP and Resources Branch

This branch has basic responsibility for EDP audits, and for recruitment, staff training and professional development.

Special Assignments Branch

This branch was formed on October 1, 1985 to accommodate the increasing number of requests from the Standing Committee on Public Accounts, and to provide better focus on government wide issues.

Advisory Committee

In February, 1986, an external Advisory Committee was established to assist the Provincial Auditor in strengthening the function of the Office. The Committee's terms of reference include the following:

- assessment of the Annual Report and other publicly issued reports;
- periodic review of the Office's audit approach;
- analysis of the Office profile;
- advice relating to sensitive audit issues.

The Committee is to meet periodically on the call of the Auditor, likely once or twice a year.

At the present time, the members of the Advisory Committee include: Patrick Reid, Jack Stokes and George Taylor, former members of the Ontario Legislature, Rendall Dick, a former deputy minister, and Adam Zimmerman, a senior member of the business community.

The first meeting of the Advisory Committee with the Provincial Auditor took place on July 3, 1986.

Personnel

Office staff at September 30, 1986 were as follows:

Executive and directors	12
Managers	14
Supervisors	23
Auditors	16
Trainees	36
Personnel and administrative	9
Total staff	110

Auditor trainees are enrolled in various stages of courses leading to professional qualifications through either The Institute of Chartered Accountants of Ontario (CA) or The Society of Management Accountants of Ontario (CMA).

7.10
Staff Training and Professional Development

The Office provides its professionally qualified staff with in-house courses and seminars. Additionally, selected staff also attend specialized courses offered outside the Office. The courses and lectures cover such topics as management skills, value for money auditing and management by results.

Most of the training provided for the trainees is carried out during audit assignments. This on-the-job training is supplemented with in-house courses in accounting, auditing and EDP principles and practices.

These training and professional development activities help to ensure that staff maintain the technical competence and management skills necessary to keep abreast of current audit approaches, and to carry out audits more economically and efficiently.

7.11
Canadian Conference of Legislative Auditors

The fourteenth annual meeting of the Canadian Conference of Legislative Auditors was held in Regina, Saskatchewan, from July 6 to 9, 1986. This gathering, bringing together legislative auditors from all the provinces and Canada, provides a useful forum for sharing ideas and exchanging information important to the legislative auditing community.

Matters discussed at the Conference, attended by the Provincial Auditor and the Assistant Provincial Auditor, included:

- the use of agents to perform audits on behalf of the legislative auditor;
- the Federal Government Reporting Study, dealing with the needs of users of government financial information;
- the expectations gap as it relates to legislative auditors;
- quality controls in legislative audit offices.

CHAPTER 8 - THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

8.1
Appointment and Composition of the Committee

Standing Order 90 of the provisionally amended Standing Orders of the Legislative Assembly provides for the appointment of an all-party Public Accounts Committee for each Session of Parliament.

The membership of the Committee is proportional to the respective Party membership in the Legislature. All members are entitled to vote on motions, with the exception of the Chairman whose vote is restricted to the breaking of a tie.

The current Public Accounts Committee was appointed on April 28, 1986, soon after the commencement of the Second Session of the Thirty-Third Parliament. Membership on the Committee consists of five Progressive Conservatives, four Liberals and two New Democrats for a total of eleven members. As has been the case since 1968, the Chairman of the current Committee is a member of the Official Opposition Party (Progressive Conservative).

8.2
Role and Responsibilities of the Committee

Standing Order 90 empowers the Committee to review and report to the House its observations, opinions and recommendations on the Report of the Provincial Auditor and the Public Accounts, which are referred to the Committee as they become available.

The Committee also reviews matters referred to it by a resolution of the Assembly or as provided in the Standing Orders of the Legislative Assembly.

In essence, the role of the Committee is to hold the Cabinet and government bureaucracy accountable for their administration. This accountability flows to the Committee, to Parliament, and ultimately, to the public at large.

In order to fulfil this role, the Committee examines, assesses and reports to the Legislature on a number of issues, including:

- the reliability and appropriateness of information in the Public Accounts to provide a fair accounting of operations and financial transactions;
- the assessment, collection and proper allocation of revenue;
- the maintenance of expenditures within the limits and for the purposes authorized by the Legislature;
- the adequacy of controls to protect assets from loss, waste and misappropriation;
- the regard for economy in the acquisition of goods and services;
- the regard for efficiency in operations;
- the effectiveness of programs in meeting their stated objectives.

Provincial Auditor's Role in the Process

The Provincial Auditor assists the Public Accounts Committee in the fulfillment of its role. Committee members are generally neither professional accountants nor are they overly familiar with the details of management systems and controls. In order for members to make sense of, and to deal constructively and intelligently with the issues previously noted, the Office endeavours to present relevant information to the Committee in a clear and precise manner.

Additionally, the Provincial Auditor and senior staff attend Committee meetings to assist members by answering questions and clarifying financial and management matters under review.

8.3
Committee Meetings

General

The Committee meets every Thursday morning when the Legislature is in session. For the past several years it has also met during the summer and winter when the Legislature has not been in session. All meetings, with the exception of those dealing with the setting of the Committee's agenda and the preparation of Committee reports, are open to the public.

Most Committee meetings deal with those aspects of the operations of government ministries and Crown agencies related to assessing the legality and prudence of government expenditures and the establishment of proper administrative policies and procedures.

At meetings dealing with ministry operations, a deputy minister, usually accompanied by senior ministry officials, appears as a witness to answer questions raised by Committee members. Since the Committee is concerned with administrative, rather than policy matters, ministers themselves are very rarely called as witnesses. When the Committee is reviewing Crown agencies, the chief executive officer, and at times the chairman of the board, appear as witnesses. They are usually accompanied by senior agency staff.

Meetings Held

Reference was made in our 1985 Report (section 7.3) to Committee meetings held during the Fourth Session of the Thirty-Second Parliament and the First Session of the Thirty-Third Parliament, up to September, 1985.

From October 1985 to September 1986 the Committee held 45 public meetings during which it reviewed the following subject matters:

- various aspects of the domed stadium finances;
- the 1985-86 Estimates of the Office of the Provincial Auditor;
- 15 sections of our 1984 and 1985 Annual Reports;
- the proposed sale of the Urban Transportation Development Corporation;
- the operations of four safety associations and the Downsview Rehabilitation Centre of the Workers' Compensation Board; and
- the alleged conflict of interest concerning the former Chairman of Management Board and Minister of Government Services.

Motions Passed at Meetings

Provincial Auditor's Report on the Royal Commission on the Northern Environment

On October 31, 1985 the Committee passed a motion requesting the Provincial Auditor to table his report on the Royal Commission on the Northern Environment. This report was filed with the Committee on November 4, 1985.

Appearance before the Committee

On November 21, 1985, the Committee passed a motion requesting the Member for Cochrane South and "minister of the day" to appear before the Committee to respond more adequately to concerns raised in the Provincial Auditor's Report on the Ministry of Natural Resources' Forest Management Activity. On January 30, 1986 the Member appeared as a substitute member and on a voluntary basis to assist the Committee in its review.

Interim Report on Domed Stadium Finances

At its November 21, 1985 meeting, the Committee passed a motion that it present to the Legislature an interim report and that it include the recommendation that the province's contribution to the domed stadium project not exceed the amount ($30 million) announced by Premier William Davis on January 17, 1985.

Wood Gundy Valuation of the Urban Transportation Development Corporation

At its March 24, 1986 meeting, the Committee passed a motion instructing the Provincial Auditor to provide it with a commentary on the Wood Gundy Valuation of the Urban Transportation Development Corporation (UTDC) with special attention to the adjustments made to UTDC's earnings forecast and the techniques and procedures used by Wood Gundy to estimate the value of UTDC's assets.

Our report on the Wood Gundy Valuation was submitted to the Committee on April 30, 1986.

Workers' Compensation Board and Safety Associations

On May 22, 1986 the Committee passed a motion asking that the Chairman of each of the safety associations receiving funds from the Workers' Compensation Board and the Deputy Minister of

Labour, be called before it to answer questions about their expenditures and further, that representatives of the administration of the Downsview Rehabilitation Centre be asked to appear in order to allow the Committee to review its expenditures. The motion also requested the Provincial Auditor to conduct a comprehensive audit on the Industrial Accident Prevention Association (IAPA).

With regard to the preceding motion, the Committee held a number of meetings in which it reviewed the operations of four safety associations.

Our report on the IAPA was submitted on October 1, 1986 to assist the Committee during its public hearings in the fall.

Court Facilities

On June 12, 1986 the Committee passed a motion directing the Provincial Auditor to review reports from a special investigation by a CBC Radio reporter respecting the state of the Province's court facilities and to report to the Committee no later than November 1986. The motion further called for the Committee to set aside whatever time is necessary during the Christmas recess to hold a full investigation into the matters raised.

Blake, Cassels and Graydon Report on Conflict of Interest Guidelines

At its September 15, 1986 meeting the Committee passed a motion that the Chairman request the Speaker to issue a warrant to the Premier to release to the Committee the report commissioned by the Premier from the law firm of Blake, Cassels and Graydon.

The report was received by the Clerk of the Committee on September 24, 1986.

8.4
Other Committee Activities

Canadian Council of Public Accounts Committees

The eighth annual meeting of the Council was held in Regina, Saskatchewan from July 6 to 9, 1986. These annual meetings, normally attended by public accounts committee members from all the provinces and the federal government, provide a valuable forum for the exchange of ideas and information amongst the members.

The issues reviewed included the role and effectiveness of the public accounts committee and the need for reform. Also discussed was the expectations gap as it relates to legislative auditors and public accounts committees.

Due to concurrently scheduled meetings on its conflict of interest investigation, the Ontario Committee members were unable to attend this year's Council meeting.

Other

On July 9, 1986 the Assembly authorized the Committee to adjourn to Vancouver, British Columbia, to consider matters relating to the domed stadium and the annual report of the Ministry of Transportation and Communications. In this regard, the Committee travelled to Vancouver in July and held meetings with officials of the Urban Transportation Development Corporation and BC Transit, as well as with officials of BC Place. In addition to meetings, tours were conducted of the UTDC manufactured Skytrain, BC Place Stadium and of the Ontario Pavilion at Expo 86.

8.5
Reports of the Committee

General

The Committee's Annual Report is normally tabled with the Legislature in December of each year. The Report consists of a précis of the information reviewed by the Committee during its meetings, together with a summary of the Committee's comments and recommendations. Occasionally, the Committee also issues interim reports.

The tabling of the Report in the Legislature is usually followed by a scheduled debate. This provides Committee members with the opportunity to once again bring items of concern to the Legislature's attention. Additionally, it gives Cabinet Ministers the opportunity to comment on matters that have been dealt with by the Committee.

1984 and 1985 Reports

As described in section 7.5 of our last year's Report, the Committee's 1984 Report to the Legislature was tabled on March 5, 1985. The debate normally following the tabling did not occur since the Legislature was dissolved on March 25, 1985 for the election of a new Legislative Assembly.

In the 1984 Report the Committee recommended that the Provincial Auditor conduct a follow-up review of the Ministry of Northern Affairs' evaluation of the Hornepayne Town Centre, noting in particular, the social benefits incurred. Our report dealing with this subject was submitted to the Committee on May 30, 1986.

At the time of completion of this Report, the Committee had not issued a 1985 Report to the Legislature. We understand that it is the Committee's intention to prepare a report before the end of the year, covering both the Committee's 1985 and 1986 activities.

Other Reports

The Committee's Interim Report to the Legislature on the Financing Arrangements for the Construction of a Domed Stadium was tabled in the House on December 16, 1985. To date, the Assembly has yet to debate this Report.

The Committee's Report to the Legislature on the allegation of conflict of interest concerning Elinor Caplan, M.P.P. was filed with the Clerk of the House on September 18, 1986.

Status of Committee Report Recommendations

Exhibit 9 of this Report summarizes and provides the current status of all recommendations contained in the above two Committee Reports. It also provides an update on the status of recommendations contained in previous Committee Reports, which were listed as unresolved in Exhibit 10 of our last year's Report.

EXHIBITS

1. Province of Ontario, Audited Financial Statements, year ended March 31, 1986.
2. Management Board Orders — Amounts Authorized and Expended Thereunder, year ended March 31, 1986.

   Office of the Provincial Auditor:

3. Organization Chart.
4. Government-Wide Audits and Special Reviews, year ended March 31, 1986.
5. Ministry Audits, year ended March 31, 1986.
6. Agency of the Crown and Crown Controlled Corporation Audits, year ended March 31, 1986.
7. Audited Statement of Expenditure, year ended March 31, 1986.
8. Status of Suggested Corrective Action and Recommendations Contained in Previous Annual Reports.
9. Status of Recommendations Contained in the Reports of the Standing Committee on Public Accounts to the Legislative Assembly.

EXHIBIT 1

PROVINCE OF ONTARIO
AUDITED FINANCIAL
STATEMENTS
for the year
ended March 31, 1986

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Accounting Basis

The financial statements, prepared using the concept of a Consolidated Revenue Fund, have been designed primarily to provide an accounting of the financial resources appropriated by the Ontario Legislature. The policies and practices followed by the Province, under which the financial transactions of government ministries are recorded and displayed as Consolidated Revenue Fund cash inflows and outflows, best accommodate reporting to the Legislature.

The cash basis of accounting used by the Province is modified to allow for an additional thirty days to pay for debts incurred during the fiscal year just ended. Cash inflows, on the other hand, are closed at March 31 for cash received or in transit.

Commencing in fiscal year 1985-86, loans and advances made to Crown corporations, boards and commissions are recorded as financial assets if they are expected to be repaid and have specific terms and conditions. The asset values are periodically adjusted when it can be reasonably determined that the value of the underlying security for the loans and advances has diminished, and when the Province's asset is not likely to be fully recovered. Equity holdings in Crown corporations are valued at a nominal amount of $1.

Prior to 1985-86, loans and advances made to, and investments made in Crown corporations, boards and commissions were recorded as financial assets. In some cases, the funds required to repay the advances and loans were effectively provided out of provincial expenditure appropriations. As announced in the October 24, 1985 Ontario Budget, certain advances, loans and investments in corporations, boards and commissions have been written down or forgiven. The write offs or loan forgiveness are classified as extraordinary adjustments since they are not typical of normal government activities, and are not considered as recurring factors in any evaluation of ordinary government operations. The extraordinary adjustments are reported in the Schedule of Extraordinary Adjustments and explanations are provided in the Notes to the Financial Statements.

The accounting of the Province's transactions is recorded under three categories.

Budgetary Transactions

Budgetary transactions are the revenue and expenditure activities of the Government.

Revenue

Includes revenue raised through taxation, premiums, fees, licences and permits, payments from the Federal Government under fiscal arrangements and shared-cost programs, and income from investments.

Expenditures

Expenditures on government programs include payments for goods and services, interest on debt for provincial purposes, salaries, transfer payments to individuals, local governments and institutions, subsidies and grants, and the acquisition and creation of fixed assets.

Non-Budgetary Transactions

Non-budgetary transactions are the lending, investment and trust administration activities of the Government, including loans, advances and investments, pension and related benefit funds and other trust and special purpose accounts. These transactions affect only asset and liability accounts.

Loans, advances and investments

This category includes the government lending and investment activity in various Crown corporations, agencies and local governments.

Pension and related benefit funds

Pension and related benefit funds consist of all employee and employer contributions and interest earnings of the funds which are mainly for government employees, members of the legislature, provincial judges, the Superannuation Adjustment Fund, less payments made from these funds.

Trust and special purpose accounts

Trust and special purpose accounts arise from the Province's trust administration activity for government ministries, agencies and the private sector.

Financing Transactions

Financing transactions show the issuance and repayment of securities.

Debt transactions

Provincial purpose transactions are the borrowing and repayment activities for its own purposes.

Ontario Hydro transactions

Ontario Hydro transactions relate to amounts borrowed by the Province on behalf of Ontario Hydro. The Province issues securities, and advances the proceeds to Ontario Hydro in exchange for bonds with like terms and conditions. These transactions and the ensuing retirement and debt servicing costs are the result of a financing alternative and are not a part of the Province's own budget plan.

Financial Assets, Accumulated Deficit and Liabilities

Financial assets

Advances to Ontario Hydro represent the face value of funds advanced to Ontario Hydro, stated in Canadian dollars using the year end rate of exchange.

All other financial assets are claims by the Consolidated Revenue Fund on other parties and have been created by cash transactions. Since expenditures on fixed assets do not represent financial claims on other parties and are not considered to differ from any other service to the public, they are not reported as financial assets but are expensed as budgetary items in the year of acquisition.

Accumulated deficit

The accumulated deficit of the Province is the excess of liabilities over financial assets, representing the accumulation of all budgetary deficits and surpluses since Confederation. The year-to-year change in the accumulated deficit is the amount by which budgetary revenues exceed or are less than budgetary expenditures.

Liabilities

The liabilities are claims by other parties on the Consolidated Revenue Fund.

Debt incurred for provincial purposes comprises debentures, notes and treasury bills which are recorded at the face value of the debt instrument, or in the case of the foreign currency denominated debt, at the Canadian dollar equivalent. Discount, premium and commission expense are treated as current year budgetary transactions. The general resources of the Province are used for the continued orderly retirement of debt and no sinking funds are maintained for this purpose.

Other liabilities include pension and related benefit funds, deposits with the Province of Ontario Savings Office and trust and special purpose accounts as described under Non-budgetary transactions.

Contingent liabilities

The contingent liabilities of the Province consist of guarantees by the Treasurer of Ontario and material claims against the Crown.

Foreign Currency Translation

Proceeds and retirements of loans denominated in foreign currencies are recorded as Financing transactions at the Canadian dollar equivalent using the rate of exchange prevailing on the day of the transaction. Debt payable and contingent liabilities are translated to Canadian dollars at year end rates of exchange.

In the case of outstanding debt issued on behalf of Ontario Hydro, the offsetting advances to Ontario Hydro are similarly translated at year end rates of exchange and, therefore, there is no exchange gain or loss to be recorded. In the case of outstanding debt incurred for provincial purposes, exchange gains or losses are recorded as Budgetary transactions.

Exhibit 1

STATEMENT OF FINANCIAL POSITION
as at March 31, 1986
($ millions)

	1986	1985
Financial assets		
Cash and temporary investments (note 2)	2,118	2,126
Advances—corporations, boards and commissions (note 3)	715	3,482
Investments in water treatment and waste control facilities (at cost less recoveries) (note 4)	510	1,028
Loans to local governments	588	626
Other loans (note 5)	54	145
	3,985	7,407
Advances to Ontario Hydro, secured by bonds (note 6)	8,189	8,206
Total financial assets	12,174	15,613
Accumulated Deficit	29,249	22,848
	41,423	38,461
Liabilities		
Debt incurred for provincial purposes (note 7)	26,695	24,593
Pension and related benefit funds (note 8)	5,397	4,708
Deposits with the Province of Ontario Savings Office	717	655
Trust and special purpose accounts	425	299
Total liabilities for provincial purposes	33,234	30,255
Debt incurred for Ontario Hydro (note 7)	8,189	8,206
	41,423	38,461
Contingent liabilities (note 9)	15,963	14,220

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Approved on behalf of the Ministry of Treasury and Economics:

B. A. SMITH, Deputy Treasurer of Ontario and Deputy Minister of Economics

D.S. McCOLL, Assistant Deputy Minister, Office of the Treasury

STATEMENT OF CONSOLIDATED REVENUE FUND TRANSACTIONS
for the year ended
March 31, 1986
($ millions)

	Budget 1986		Actual 1986		Actual 1985	
Budgetary Transactions						
Revenue	25,696		26,059		23,765	
Expenditure	28,496		28,789		26,431	
Budgetary deficit — before extraordinary adjustments		2,800		2,730		2,666
Extraordinary adjustments (note 1 and schedule)		3,699		3,671		—
Budgetary deficit		6,499		6,401		2,666
Non-Budgetary Transactions (net)						
Pension and related benefit funds	695		689		615	
Loans, advances and investments	273		248		259	
Trust and special purpose accounts	137		188		90	
Non-budgetary contribution (net) — before extraordinary adjustments		1,105		1,125		964
Extraordinary adjustments		3,181		3,166		—
Total non-budgetary contribution		4,286		4,291		964
Net Cash Requirements		2,213		2,110		1,702
Financing						
Debt Transactions						
Proceeds of loans net of retirements		1,996		2,102		2,090
Increase (Decrease) in cash and temporary investments		(217)		(8)		388
Total Financing		2,213		2,110		1,702
Net cash requirements — before extraordinary adjustments		1,695		1,605		1,702

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Exhibit 1

STATEMENT OF BUDGETARY REVENUE
for the year ended
March 31, 1986
($ millions)

	Budget 1986	Actual 1986	Actual 1985
Taxation			
Personal Income Tax	6,777	7,249	6,253
Retail Sales Tax	5,019	5,025	4,426
Corporations Tax	2,641	2,575	2,248
Gasoline Tax	1,020	977	961
Tobacco Tax	561	603	583
Fuel Tax	242	242	225
Land Transfer Tax	162	205	139
Race Tracks Tax	64	64	61
Public Utilities Income Tax	75	56	51
Mining Profits Tax	55	55	65
Succession Duty	7	6	6
Other	5	5	5
	16,628	17,062	15,023
Other Revenue			
Premiums — Ontario Health Insurance Plan	1,638	1,622	1,586
Profits from Crown corporations and boards			
Liquor Control Board of Ontario	682	638	602
Ontario Lottery Corporation	132	136	122
Vehicle registration fees	349	356	329
Liquor Licence Board of Ontario revenues	268	275	253
Other fees and licences	235	252	223
Royalties	152	164	136
Utility Service Charges	111	126	111
Fines and Penalties	90	87	85
Sales and Rentals	71	73	80
Other	132	131	132
	3,860	3,860	3,659
Government of Canada			
Established Programs Financing			
Cash Contribution	2,850	2,752	2,772
Extended Health Care Services	384	385	359
Canada Assistance Plan	1,000	1,045	938
National Training Agreement	162	171	168
Other	327	329	341
	4,723	4,682	4,578
Interest Loans, Advances and Investments	485	455	505
Total Budgetary Revenue	25,696	26,059	23,765

See accompanying Summary of significant accounting policies and Notes to the financial statements.

STATEMENT OF BUDGETARY EXPENDITURE for the year ended March 31, 1986 ($ millions)

MINISTRY	Budget 1986	Actual 1986	Actual 1985
Agriculture and Food	374	387	304
Attorney General	286	287	279
Citizenship and Culture	214	215	183
Colleges and Universities	2,053	2,063	1,934
Community and Social Services	2,768	2,863	2,604
Consumer and Commercial Relations	122	124	114
Correctional Services	271	283	245
Education	3,385	3,380	3,217
Energy	82	83	80
Environment	334	315	282
Government Services	438	436	380
Health	8,945	9,214	8,340
Housing	251	234	218
Industry, Trade and Technology	82	82	79
Intergovernmental Affairs	7	8	9
Labour	75	76	72
Legislative and Executive Offices	8	8	6
Management Board of Cabinet	18	20	17
Municipal Affairs	859	848	810
Natural Resources	455	444	416
Northern Development and Mines	163	175	176
Office for Women's Issues	10	10	4
Revenue	688	684	652
Skills Development	418	392	305
Solicitor General	336	340	309
Tourism and Recreation	146	145	159
Transportation and Communications	1,553	1,602	1,587
Treasury and Economics	713	735	672
Other	82	86	56
	25,136	25,539	23,509
Interest on debt for provincial purposes	3,278	3,250	2,922
Contingency Fund	132		
Estimated Year End Savings (note 11)	(50)		
Total Budgetary Expenditure before Extraordinary Adjustments	28,496	28,789	26,431
Extraordinary Adjustments (note 1 and Schedule)	3,699	3,671	
Total Budgetary Expenditure	32,195	32,460	26,431

See accompanying Summary of significant accounting policies and Notes to the financial statements.

Exhibit 1

STATEMENT OF NON-BUDGETARY TRANSACTIONS
for the year ended March 31, 1986
($ millions)

	Budget 1986	Actual 1986	Actual 1985
Pension and Related Benefit Funds			
DEPOSITS TO:			
Public Service Superannuation Fund	663	641	565
Superannuation Adjustment Fund	280	283	248
Other	22	22	31
	965	946	844
PAYMENTS FROM:			
Public Service Superannuation Fund	168	164	164
Superannuation Adjustment Fund	89	82	63
Other	13	11	2
	270	257	229
Net Deposits to Pension and Related Benefit Funds	695	689	615
Loans, Advances and Investments			
REPAYMENTS BY:			
Corporations, boards and commissions			
Crop Insurance Commission of Ontario		13	24
Development Corporations	32	57	41
Ontario Education Capital Aid Corporation	104	79	89
Ontario Land Corporation	75	86	75
Ontario Universities Capital Aid Corporation	38	26	23
Other	59	20	28
Local governments	22	74	52
Water treatment and waste control facilities	85	46	68
Other loans and investments	15	23	29
	430	424	429
PAYMENTS TO:			
Corporations, boards and commissions			
Development Corporations	28	77	51
Ontario Energy Corporation	30	16	28
Other	40	13	10
Local governments	24	36	25
Water treatment and waste control facilities	35	34	56
	157	176	170
Net Repayments of Loans, Advances and Investments	273	248	259
Trust and Special Purpose Accounts			
DEPOSITS TO:			
Interprovincial Lotteries Trust Fund	143	181	128
Motor vehicle accident claims fund	11	10	11
Province of Ontario Savings Office	31	62	(32)
Other	26	10	19
	211	263	126
PAYMENTS FROM:			
Interprovincial Lotteries Trust Fund	66	65	21
Motor vehicle accident claims fund	4	6	9
Other	4	4	6
	74	75	36
Net Deposits to Trust and Special Purpose Accounts	137	188	90
Total Non-Budgetary Contribution (net)— before Extraordinary Adjustments	1,105	1,125	964

See accompanying Summary of significant accounting policies and Notes to the financial statements.

STATEMENT OF NON-BUDGETARY TRANSACTIONS — Continued

for the year ended March 31, 1986 ($ millions)

	Budget 1986	Actual 1986	Actual 1985
Extraordinary Adjustments — Write-offs (note 1)			
Ontario Universities Capital Aid Corporation	969	969	
Water treatment and waste control facilities	527	506	
Ontario Land Corporation	490	468	
Ontario Education Capital Aid Corporation	437	464	
Ontario Energy Corporation	426	423	
Ontario Housing Corporation	184	184	
Loans to Public Hospitals: Debt forgiveness	69	80	
Urban Transportation Development Corporation Ltd.	37	37	
Liquor Control Board of Ontario	25	25	
Development Corporations	17	10	
Total Extraordinary Adjustments	3,181	3,166	
Total Non-budgetary Contribution	4,286	4,291	964

STATEMENT OF DEBT TRANSACTIONS

for the year ended March 31, 1986 ($ millions)

	Budget 1986	Actual 1986	Actual 1985
Proceeds of Loans			
Canada Pension Plan Investment Fund	1,150	1,214	1,134
Teachers' Superannuation Fund	1,200	1,235	1,065
Total Proceeds of Loans	2,350	2,449	2,199
Retirements of Loans			
Canada Pension Plan Investment Fund	20	20	
Other debentures and notes	334	327	109
Total Retirements of Loans	354	347	109
Debt Transactions (net)	1,996	2,102	2,090

See accompanying Summary of significant accounting policies and Notes to the financial statments.

Exhibit 1

SCHEDULE OF EXTRAORDINARY ADJUSTMENTS
for the year
ended March 31, 1986
($ millions)

	Budget 1986	Actual 1986
Ontario Energy Corporation re:Suncor		
Write-off advance	325	325
Discharge of Sun note obligation	305	294
Ontario Land Corporation		
Mortgage valuation write-down	37	40
Land valuation write-down and transfer to ministries	453	428
Removal of Obligations to the Province		
Ontario Universities Capital Aid Corporation: debt forgiveness	969	969
Ontario Education Capital Aid Corporation: debt forgiveness	437	464
Ontario Housing Corporation: debt forgiveness	184	184
Loans to public hospitals: debt forgiveness	69	80
Investments in Water Treatment and Waste Control Facilities: write-down	527	506
Provincial Equity in Crown Corporations Write-Down		
Ontario Development Corporation	7	7
Urban Transportation Development Corporation Ltd.	37	37
Ontario Energy Corporation	101	98
Liquor Control Board of Ontario	25	25
Other adjustments		
Municipal Transit: Unfunded commitments	90	90
Hospitals: Unfunded commitments	15	13
Development Corporations: Uncollectable Debts	10	3
School Boards: Restoration of cash advances	108	108
	3,699	3,671

See accompanying Summary of significant accounting policies and Notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
(all figures in millions of dollars)

1. Extraordinary Adjustments

As announced in the October 24, 1985 Ontario Budget, action was taken to improve the presentation of the Province's financial affairs. The new policy dealing with the accounting treatment of these actions, is described in the Summary of Significant Accounting Policies. Adjustments were made during the fiscal year and were not applied retroactively. They were as follows:

- The removal from the Province's accounts of financial assets where the funds required to repay the advances and loans were effectively provided out of provincial expenditure appropriations;
- The revaluation of financial assets when it was determined that the value of the underlying security for advances had diminished, and when the Province's asset was not likely to be fully recovered;
- The write down of investments which took the form of equity holdings in Crown corporations to a nominal value of $1.

The following are reported as Extraordinary Adjustments:

(a) Removal of obligations to the Province

(1) Debentures held by the Ontario Universities Capital Aid Corporation were assumed by the Province following the Corporation's wind down on December 20, 1985. The debentures outstanding at March 31, 1986, were written off with the exception of $5 million in direct municipal obligations related to library construction, which have been included with Loans to local governments. The write-off totalled $969 million.

(2) Debentures held by the Ontario Education Capital Aid Corporation were assumed by the Province following the Corporation's wind down on December 20, 1985. These debentures were written down by $464 million reflecting the portion supported by provincial grants. The remaining debentures totalling $293 million have been included with Loans to local governments.

(3) The Province's advances to Ontario Housing Corporation totalling $184 million were written off.

(4) The value of the Province's Loans to public hospitals was reduced by the $80 million portion funded by the Province.

(5) The Provincial investment in water treatment and waste control facilities of $506 million, which was determined as not to be recoverable from municipalities, was written off.

(b) Adjustments to financial assets

(1) Advances of $325 million from the Province to the Ontario Energy Corporation for the purchase of shares in Suncor Inc. have been written off.

(2) Advances of $428 million made by the Province to the Ontario Land Corporation for the acquisition and development of land were written off. In addition it was estimated that the Province would be unable to recover the full value of all mortgages. Accordingly, the value of advances for mortgage activities was reduced by $40 million.

(c) Provincial equity in Crown Corporation write down

(1) Ontario Development Corporation	$ 7 million
(2) Urban Transportation Development Corporation Ltd.	37 million
(3) Ontario Energy Corporation	98 million
(4) Liquor Control Board of Ontario	25 million

(d) Other adjustments

(1) Payment of $294 million to the Ontario Energy Corporation to allow it to discharge its remaining obligations to the Sun Note Company related to the 1981 purchase of a 25% shareholding in Suncor Inc.

(2) Payment of $90 million to municipal transit systems to honour commitments made which were unfunded.

(3) Payment of $13 million to hospitals to honour commitments made which were unfunded.

(4) Payment of $108 million to school boards to restore cash advances to the previous level of 7%.

(5) Advances of $3 million to the Development Corporations for their lending programs were written off.

2. Cash and Temporary Investments

Temporary investments consist mainly of marketable short-term securities issued by Canadian chartered banks, and provincial and federal governments and are recorded at cost. Also included are $22 million (1985 $28 million) of debentures and bonds issued or guaranteed by the Province, which at March 31, 1986 had a market value of $22 million (1985 $24 million).

Exhibit 1

3. Advances – Corporations, Boards and Commissions

	1986	1985
Ontario Land Corporation	$323	$ 872
Development Corporations	285	273
Other	107	197
Ontario Universities Capital Aid Corporation		1,007
Ontario Education Capital Aid Corporation		543
Ontario Energy Corporation		407
Ontario Housing Corporation		183
	$715	$3,482

The Ontario Land Corporation advances of $323 million as at March 31, 1986 represent the appraised market value of mortgages, reflecting a write down of $40 million during the year, as described in Note 1. Advances of $428 million to the Corporation for the acquisition and development of land were also written off as the Corporation will transfer its land holdings to the Province at no cost and will therefore not repay the related advances.

The Ontario Development Corporation and the associated Eastern Ontario Development Corporation and Northern Ontario Development Corporation provide loans and arrange for provincial guarantees of bank loans to qualified enterprises. The Province has advanced funding for the Corporations' lending programs. The Province also defrays the Corporations' costs for all administrative expenses, loans made at low interest rates, and honouring guarantees, amounting to $15 million in 1986 (1985 $17 million). Advances to the Corporations are reduced by their loan forgiveness and write-offs, amounting to $9 million in 1986 (1985 $9 million). As described in Note 1, the Province's equity investment in the Ontario Development Corporation of $7 million was written down to a nominal value of $1.

Advances to the Ontario Universities Capital Aid Corporation, the Ontario Education Capital Aid Corporation, the Ontario Energy Corporation and the Ontario Housing Corporation have been written off as described in Note 1.

4. Investments in Water Treatment and Waste Control Facilities

The Ministry of the Environment lets extensive contracts for the building of water and sewage systems to serve municipalities. These investments are being recovered over the life of the agreements with the municipalities. As described in Note 1, the investment has been written down by $506 million.

Agreements covering $429 million of the investment are for provincially-owned projects which are subject to service rate billings. The proceeds from these billings are used to amortize the investment over periods of up to forty years, to pay for operating costs, and to provide a return on the investment.

Certain other agreements provide for the accumulation of the principal portion of annual amortization payments in a sinking fund. The accumulated balance in these funds amounting to $45 million at March 31, 1986 (1985 $47 million) was applied as a reduction of the investment account. In previous years, the sinking fund liability was reported as a part of trust and special purpose accounts.

5. Other Loans

Included in other loans are Ministry of Health capital construction loans to public hospitals amounting to $42 million (1985 $132 million). During the current fiscal year, the Province discontinued the practice of recording grants to hospitals to fund the repayment of a portion of certain loans as described in Note 1. As a result, the value of the Province's loans was reduced by the $80 million portion funded by the Province.

6. Advances to Ontario Hydro

The Province has advanced funds to Ontario Hydro, secured by bonds with like terms and conditions to the securities issued by the Province on behalf of Ontario Hydro. The bonds consist of U.S. $5,145 million (1985 U.S. $5,272 million), and Canadian $1,000 million (1985 Canadian $1,000 million) with respect to Canada Pension Plan funds. At March 31, 1986 bonds denominated in U.S. dollars are recorded at $7,189 million (1985 $7,206 million), the Canadian dollar equivalent using the exchange rate in effect on that date. Transactions during the year are as follows:

	1986	1985
Proceeds of loans		319
Retirement of loans	(175)	(80)
Net proceeds	(175)	239
Foreign exchange differential	158	480
Net (decrease) increase in debt incurred for Ontario Hydro purposes	(17)	719

Related advances, interest and recoveries		
Advances to Ontario Hydro		319
Interest	916	874
Recovery of interest and loan retirements	(1,091)	(954)
Net advances	(175)	239
Foreign exchange differential	158	480
Net related advances, interest, foreign exchange differential and recoveries	(17)	719

7. **Debt Incurred**

Debentures, notes and treasury bills for Provincial purposes and for Ontario Hydro, expressed in Canadian dollars, are summarized by years of repayment/maturity in the following tables.

FOR PROVINCIAL PURPOSES

Years of Repayment/Maturity March 31	1986	1985
1986	$	$ 865
1987	998	346
1988	775	776
1989	919	919
1990	453	453
1991	484	
1-5 years	3,629	3,359
6-10 years	4,478	3,790
11-15 years	6,646	6,780
16-20 years	9,733	8,611
21-25 years	2,086	1,917
26-30 years	72	69
31-35 years	51	64
36-40 years		3
	$26,695	$24,593

FOR ONTARIO HYDRO

Years of Repayment/Maturity March 31	1986			1985
	Canadian	United States	Total	Total
1986	$	$	$	$ 136
1987				
1988		279	279	273
1989				
1990		279	279	274
1991		62	62	
1-5 years		620	620	683
6-10 years		1,171	1,171	1,208
11-15 years	500	627	1,127	542
16-20 years	500	1,420	1,920	2,067
21-25 years		2,265	2,265	2,630
26-30 years		1,086	1,086	1,076
	$1,000	$7,189	$8,189	$8,206

The U.S. dollar debenture liability has been revalued using the rate of exchange as at March 31. The foreign exchange differential is $158 million (1985 $480 million).

As explained in Note 6, the Province has an offsetting asset of Ontario Hydro bonds with like terms and conditions to the securities issued by the Province.

Exhibit 1

8. Pension and Related Benefit Funds

The Province maintains accounts within the Consolidated Revenue Fund for all contributions and interest earnings less payments regarding the following pension and related benefit funds and accounts. The amounts recorded by the Province are essentially the sole assets of these plans.

	1986	1985
Public Service Superannuation Fund	$4,030	$3,554
Superannuation Adjustment Fund	1,300	1,099
Legislative Assembly Retirement Allowances Account	32	29
Provincial Judges Benefits Fund	31	25
Other	4	1
	$5,397	$4,708

Based on the latest actuarial report as at December 31, 1982, the Public Service Superannuation Fund had unfunded liabilities as follows:

1. An initial unfunded liability of $83 million, upon which an interest contribution of $7 million is required to be credited annually in accordance with the Pension Benefits Act.
2. Residual unfunded liabilities of $38 million which are required to be amortized by annual payments of $7 million until January 1, 1992.

As at March 31, 1986, the Province had made all scheduled payments.

An actuarial review of the Legislative Assembly Retirement Allowances Account as at March 31, 1985, revealed a surplus of $1 million.

9. Contingent Liabilities

Obligations guaranteed by the Province:	1986	1985
Debentures, bonds and notes		
Ontario Hydro	$15,093	$13,388
Bank loans guaranteed		
Corporations and individuals through various government programs	319	293
Other guarantees		
Corporations	551	534
Provincial Crown agencies		5
	$15,963	$14,220

Claims against the Crown:

There are claims outstanding against the Crown of which five are for amounts over $50 million each arising from legal action either in progress or threatened in respect of breach of contract, damages to persons and property and like items. The likely cost to the Province, if any, cannot be determined because the outcome of these actions is uncertain.

10. Teachers' Superannuation Fund

Through budgetary expenditure, the Province makes annual payments matching teachers' contributions to the Teachers' Superannuation Fund. The Fund is administered by the Teachers' Superannuation Commission. The Province is also committed to paying any deficiency in the Fund. $39 million was paid in fiscal 1985-86 on account of the unfunded liability based on the actuarial report as at December 31, 1981.

Subsequently in fiscal 1986-87, the actuarial report as at December 31, 1984 was filed declaring a surplus of $693 million and as a result the $39 million was refunded by the Teachers' Superannuation Commission.

11. Budget Figures

The comparative budget figures in the financial statements are from the 1985 Ontario Budget which was presented by the Treasurer of Ontario to the Legislative Assembly on October 24, 1985.

The Contingency Fund budget figure in the Statement of Budgetary Expenditure represents a provision for the cost of salary and employee benefit revisions likely to be approved in the fiscal year. These revisions when paid, however, are charged to each ministry's appropriations.

The Estimated Year-end Savings figure in the Statement of Budgetary Expenditure represents expected underspending during the year which was not specifically identified by ministry.

12. Comparative Figures

The 1985 comparative figures have been reclassified where necessary to conform with the 1986 financial statement presentation.

PROVINCIAL AUDITOR'S OPINION

I have examined the statement of financial position of the Province of Ontario as at March 31, 1986 and the statements of consolidated revenue fund transactions, budgetary revenue, budgetary expenditure, non-budgetary transactions and debt transactions for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Province as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with the basis of accounting set out in the Summary of Significant Accounting Policies. Further, in my opinion, except for the changes in accounting for financial assets which were effectively being repaid out of provincial expenditure appropriations, and for equity holdings in Crown corporations, as referred to in note 1 to the financial statements, such policies have been applied on a basis consistent with that of the preceding year.

In accordance with section 12 of the Audit Act, a report will be made to the Speaker of the Legislative Assembly.

D.F. Archer

D.F. Archer, F.C.A.
Provincial Auditor.
Toronto, Ontario.
August 1, 1986.

EXHIBIT 2

MANAGEMENT BOARD ORDERS
Amounts Authorized and Expended Thereunder
year ended March 31, 1986

Date of Order	Ministry, Program and Activity	Authorized	Expended
	Ministry of Agriculture and Food	$	$
	Ministry Administration Program		
Feb. 25, 1986	Personnel Services	55,800	53,282
Feb. 25, 1986	Information Services	488,300	488,300
Apr. 8, 1986	Information Services	207,400	188,150
Feb. 25, 1986	Legal Services	42,000	23,204
Feb. 25, 1986	Audit Services	40,600	23,437
Feb. 25, 1986	Systems Development Services	318,800	318,800
Apr. 8, 1986	Systems Development Services	102,500	87,624
	Agricultural Marketing and Standards Program		
Feb. 25, 1986	Quality and Standards	1,255,400	1,255,400
Apr. 8, 1986	Quality and Standards	361,100	326,815
	Agricultural Technology, Development and Field Services Program		
Apr. 8, 1986	Education, Research and Technical Services	78,300	31,749
Feb. 25, 1986	Colleges of Agricultural Technology - Education and Research	1,253,800	1,253,800
Apr. 8, 1986	Colleges of Agricultural Technology - Education and Research	271,700	221,129
Apr. 8, 1986	Other Education and Research	1,226,000	1,181,585
Feb. 25, 1986	Support to Rural and Farm Organizations	335,600	299,166
Feb. 25, 1986	Advisory Services	1,346,200	1,346,200
Apr. 8, 1986	Advisory Services	1,647,000	1,622,382
	Financial Assistance to Agriculture Program		
Feb. 25, 1986	Foodland Preservation Policy	209,300	209,300
Apr. 8, 1986	Foodland Preservation Policy	102,300	100,872
Apr. 8, 1986	Direct Support and Stabilization Payments	1,040,000	728,224
		10,382,100	9,759,419

Date of Order	Ministry, Program and Activity	Authorized	Expended
	Ministry of the Attorney General		
	Law Officer of the Crown Program		
Dec. 17, 1985	Attorney General	292,800	247,004
Feb. 25, 1986	Deputy Attorney General	47,500	47,491
Dec. 17, 1985	Policy Development	150,000	150,000
Feb. 25, 1986	Policy Development	133,000	132,575
Dec. 17, 1985	Royal Commissions	175,800	175,800
Feb. 25, 1986	Royal Commissions	522,800	469,779
	Administrative Services Program		
Feb. 25, 1986	Financial Services	160,000	160,000
Apr. 8, 1986	Financial Services	180,000	178,674
Apr. 8, 1986	Personnel Services	73,000	72,948
Feb. 25, 1986	Information Services	50,900	50,900
Apr. 8, 1986	Information Services	43,000	3,298
Apr. 8, 1986	Analysis and Planning	70,000	69,553
Apr. 8, 1986	Audit Services	22,000	18,249
Feb. 25, 1986	Systems Development Services	217,300	216,838
	Guardian and Trustee Services Program		
Feb. 25, 1986	Official Guardian	406,300	406,300
Apr. 8, 1986	Official Guardian	91,000	90,900

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Apr. 8, 1986	Public Trustee	160,000	159,196
Apr. 8, 1986	Supreme Court Accountant	12,000	10,954
	Crown Legal Services Program		
Feb. 25, 1986	Criminal Law Division	423,000	423,000
Apr. 8, 1986	Criminal Law Division	384,000	383,893
Dec. 17, 1985	Civil Law Division	190,000	190,000
Apr. 8, 1986	Civil Law Division	118,000	118,000
Apr. 29, 1986	Civil Law Division	140,400	140,400
Apr. 8, 1986	Seconded Legal Services	11,000	8,755
	Courts Administration Program		
Feb. 25, 1986	Program Administration	1,264,400	1,264,213
Feb. 25, 1986	Supreme Court of Ontario	629,900	629,900
Apr. 8, 1986	Supreme Court of Ontario	58,000	57,574
Feb. 25, 1986	District Courts	2,068,000	2,068,000
Apr. 8, 1986	District Courts	244,000	243,551
Feb. 25, 1986	Provincial Courts (Civil Division)	282,100	282,100
Apr. 8, 1986	Provincial Courts (Civil Division)	93,000	17,659
Feb. 25, 1986	Provincial Courts (Criminal and Family)	2,052,100	2,051,038
	Administrative Tribunals Program		
Feb. 25, 1986	Criminal Injuries Compensation Board	755,000	755,000
Apr. 8, 1986	Criminal Injuries Compensation Board	39,000	37,957
		11,559,300	11,331,499

Cabinet Office

	Cabinet Office Program		
Jan. 14, 1986	Main Office	1,886,200	1,792,477
Jan. 14, 1986	Government House Leader	4,000	—
	Francophone Affairs Program		
Jan. 14, 1986	Council for Franco-Ontarian Affairs	5,600	—
		1,895,800	1,792,477

Ministry of Citizenship and Culture

	Ministry Administration Program		
Feb. 4, 1986	Main Office	217,500	216,643
Mar. 18, 1986	Financial Services	55,800	26,619
Mar. 18, 1986	Supply and Office Services	212,700	161,231
Apr. 8, 1986	Personnel Services	60,700	23,974
Feb. 18, 1986	Analysis and Planning	43,400	43,367
Dec. 10, 1985	Legal Services	119,400	119,400
Mar. 18, 1986	Legal Services	20,000	10,767
Mar. 18, 1986	Audit Services	54,200	25,601
Mar. 18, 1986	Systems Development Services	191,200	175,685
	Heritage Conservation Program		
Mar. 18, 1986	Archives	115,300	108,436
	Arts Support		
Apr. 8, 1986	Cultural Development and Institutions	1,717,600	1,713,663
Mar. 18, 1986	Ontario Science Centre	1,096,300	1,095,504
	Citizenship and Multicultural Support Program		
Mar. 18, 1986	Citizenship Development	1,089,900	1,079,915
Mar. 18, 1986	Special Services for Native Peoples	387,500	383,019
	Libraries and Community Information Program		

Exhibit 2

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Mar. 18, 1986	Library Services	898,500	824,929
Mar. 18, 1986	Community Information	75,700	65,489
	Capital Support and Regional Services Program		
Feb. 4, 1986	Regional Services	350,000	350,000
Mar. 18, 1986	Regional Services	30,000	11,131
		6,735,700	6,435,373
	Ministry of Colleges and Universities		
	University Support Program		
Mar. 18, 1986	Provincial Support for Universities	608,600	608,600
Mar. 25, 1986	Provincial Support for Universities	10,000,000	9,760,790
Mar. 18, 1986	Ontario Council on University Affairs	28,900	17,817
	College Support Program		
Mar. 18, 1986	Support for Colleges of Applied Arts and Technology	154,700	—
Mar. 18, 1986	Schools for Nursing Assistants	84,100	—
Mar. 18, 1986	Ontario Council of Regents	214,200	189,361
	Student Affairs Program		
Mar. 18, 1986	Student Support	239,000	—
		11,329,500	10,576,568
	Ministry of Community and Social Services		
	Ministry Administration Program		
Mar. 18, 1986	Main Office	111,200	94,701
Mar. 18, 1986	Financial Services	652,900	476,876
Mar. 18, 1986	Supply and Office Services	231,500	185,303
Mar. 18, 1986	Personnel Services	218,100	139,465
Mar. 18, 1986	Legal Services	96,700	71,078
Mar. 18, 1986	Audit Services	119,600	51,015
Mar. 18, 1986	Systems Development Services	982,400	965,921
Mar. 4, 1986	Social Assistance Review Board	522,800	329,501
	Adults' and Children's Services Program		
Mar. 4, 1986	Program Administration	1,854,000	1,620,595
Mar. 25, 1986	Field Administration	1,754,900	1,677,102
Mar. 18, 1986	Income Maintenance	44,965,300	41,435,830
Mar. 25, 1986	Adults' Social Services	1,557,200	—
Mar. 25, 1986	Children's Social Services	5,352,500	5,017,288
Mar. 25, 1986	Developmental Services — Adults and Children	26,034,000	24,298,096
		84,453,100	76,362,771
	Ministry of Consumer and Commercial Relations		
	Ministry Administration Program		
Jan. 21, 1986	Main Office	180,700	180,700
Mar. 25, 1986	Main Office	140,500	120,179
Mar. 25, 1986	Financial Services	78,100	73,793
Jan. 21, 1986	Supply and Office Services	269,600	269,508
Mar. 25, 1986	Personnel Services	40,500	7,345
Mar. 25, 1986	Information Services	108,500	52,674
Jan. 21, 1986	Analysis and Planning	113,800	97,444
Mar. 25, 1986	Audit Services	17,600	9,298
Dec. 3, 1985	Systems Development Services	504,000	504,000
	Commercial Standards Program		

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Mar. 25, 1986	Securities	780,100	728,329
Mar. 25, 1986	Pension Plans	182,900	145,354
Mar. 25, 1986	Financial Institutions	5,165,100	4,319,651
Mar. 25, 1986	Business Practices	623,100	602,748
	Technical Standards Program		
Mar. 25, 1986	Pressure Vessels Safety	11,000	10,958
Mar. 25, 1986	Elevating Devices	167,000	166,899
Mar. 25, 1986	Fuels Safety	135,500	126,194
Mar. 25, 1986	Upholstered and Stuffed Articles	8,400	8,245
	Public Entertainment Standards Program		
Feb. 18, 1986	Regulation of Horse Racing	156,600	156,600
Mar. 25, 1986	Regulation of Horse Racing	339,900	339,685
Mar. 25, 1986	Theatres, Lotteries and Athletics Commissioner	367,900	157,651
	Registration Program		
Mar. 25, 1986	Program Administration	76,800	—
Mar. 25, 1986	Real Property Registration	2,572,700	2,572,266
Mar. 25, 1986	Personal Property Registration	151,900	61,128
Mar. 25, 1986	Registrar General	242,600	206,308
Mar. 25, 1986	Companies	245,400	245,347
	Liquor Licence Program		
Mar. 25, 1986	Liquor Licence Board of Ontario	366,600	308,054
		13,046,800	11,470,358
	Ministry of Correctional Services		
	Ministry Administration Program		
Mar. 18, 1986	Main Office	84,800	—
Mar. 18, 1986	Financial Services	111,100	106,559
Mar. 18, 1986	Supply and Office Services	102,000	25,021
Mar. 18, 1986	Personnel Services	75,200	9,658
Mar. 18, 1986	Training and Development	69,700	24,620
Mar. 18, 1986	Information Services	20,800	—
Mar. 18, 1986	Legal Services	12,800	8,091
Mar. 18, 1986	Audit Services	25,200	—
Mar. 18, 1986	Systems Development Services	345,100	298,392
Mar. 18, 1986	Ontario Board of Parole	249,100	187,662
	Operations Program		
Mar. 18, 1986	Program Administration	58,800	—
Mar. 18, 1986	Offender Programming	172,700	166,793
Mar. 18, 1986	Institutional Services	16,669,400	15,050,895
Mar. 18, 1986	Community Services	858,700	—
		18,855,400	15,877,691
	Ministry of Education		
	Ministry Administration Program		
Feb. 11, 1986	Main Office	166,800	166,800
Mar. 18, 1986	Main Office	476,000	468,069
Mar. 18, 1986	Financial Services	149,500	120,438
Mar. 18, 1986	Supply and Office Services	388,700	372,239
Jan. 21, 1986	Personnel Services	586,000	586,000
Mar. 18, 1986	Personnel Services	132,900	117,102
Mar. 18, 1986	Information Services	384,600	373,499
Mar. 18, 1986	Analysis and Planning	124,700	120,711
Mar. 18, 1986	Legal Services	67,500	65,994
Mar. 18, 1986	Audit Services	36,700	—
Mar. 18, 1986	Systems Development Services	425,800	425,345
	Education Program		

Exhibit 2

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Mar. 18, 1986	Program Administration	94,500	—
Mar. 18, 1986	Blind, Deaf and Demonstration Schools	1,563,500	1,562,471
Mar. 18, 1986	Education Technology	342,300	315,938
Mar. 18, 1986	Independent Learning	286,400	270,113
Mar. 4, 1986	Curriculum	1,266,000	945,431
Mar. 4, 1986	Special Education	171,400	163,865
Apr. 1, 1986	Special Projects	333,600	319,532
	Services to Education Program		
Feb. 11, 1986	Education Relations Commission	221,900	213,946
Mar. 18, 1986	Languages of Instruction Commission	16,000	12,155
		7,234,800	6,619,648
	Ministry of Energy		
	Energy Management and Technology Program		
Apr. 8, 1986	Energy Research and Development	1,200,000	1,104,964
		1,200,000	1,104,964
	Ministry of the Environment		
	Ministry Administration Program		
Feb. 18, 1986	Main Office	169,800	169,800
Apr. 8, 1986	Main Office	37,000	35,632
Apr. 8, 1986	Financial Services	50,200	42,535
Mar. 25, 1986	Personnel Services	105,000	104,714
Mar. 25, 1986	Audit Services	33,700	20,160
Mar. 25, 1986	Systems Development Services	45,400	44,093
	Environmental Support and Services Program		
Mar. 25, 1986	Air Resources	683,200	628,207
Mar. 25, 1986	Laboratory Services	2,480,500	2,437,448
	Environmental Control Program		
Mar. 25, 1986	Compliance and Enforcement	811,100	711,186
Mar. 25, 1986	Environmental Approvals and Technical Support	818,000	723,724
	Utility Planning and Operations Program		
Mar. 25, 1986	Capital Financing and Revenue	272,600	246,940
Feb. 18, 1986	Ontario Waste Management Corporation	2,100,000	2,100,000
		7,606,500	7,264,439
	Ministry of Government Services		
	Ministry of Government Services		
Mar. 18, 1986	Main Office	72,000	69,960
Apr. 1, 1986	Supply and Office Services	10,000	—
Apr. 1, 1986	Legal Services	25,000	9,116
Apr. 1, 1986	Information Services	79,000	47,908
Apr. 1, 1986	Personnel Services	95,200	91,489
Mar. 18, 1986	Ministers Without Portfolio	2,400,000	2,320,662
	Accommodation Program		
Apr. 1, 1986	Program Administration	120,400	97,003
Apr. 1, 1986	Advisory Services	205,000	144,200
Sept. 17, 1985	Capital Construction	15,630,800	15,630,800
Mar. 18, 1986	Capital Construction	2,793,400	2,775,549
	Real Property Program		
Apr. 1, 1986	Program Administration	35,000	33,461

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Apr. 1, 1986	Real Property Management	10,000	4,392
	Corporate Services Program		
Apr. 1, 1986	Purchasing Services	56,800	56,618
	Human Resource Services Program		
Apr. 1, 1986	Employee Health and Advisory Services	75,700	31,100
		21,608,300	21,312,258
	Ministry of Health		
	Ministry Administration Program		
Apr. 8, 1986	Main Office	160,000	159,594
Apr. 8, 1986	Financial Services	318,000	310,678
Apr. 8, 1986	Supply and Office Services	374,000	372,403
Apr. 8, 1986	Personnel Services	244,000	242,300
Apr. 8, 1986	Legal Services	48,000	45,546
Apr. 8, 1986	Audit Services	84,000	75,965
Apr. 8, 1986	Systems Development Services	148,000	36,180
Dec. 17, 1985	Lieutenant Governor's Board of Review	322,400	236,983
	Institutional Health Program		
Mar. 18, 1986	Hospitals and Related Facilities	52,407,300	52,407,300
Apr. 1, 1986	Hospitals and Related Facilities	70,678,900	70,536,384
	Emergency Health Services, Laboratories and Drug Benefits Program		
Apr. 8, 1986	Program Administration	11,000	10,355
Apr. 8, 1986	Emergency Health Services	927,100	903,626
Mar. 4, 1986	Laboratory Services	3,589,100	3,558,572
Mar. 4, 1986	Drug Benefits	29,226,400	25,406,895
	Mental Health Program		
Mar. 18, 1986	Program Administration	300,500	299,261
Mar. 18, 1986	Psychiatric Services	28,686,200	28,376,271
Mar. 18, 1986	Community Mental Health	1,934,400	1,791,661
	Community and Public Health Program		
Mar. 18, 1986	Community Health Services	25,152,900	24,218,751
	Health Insurance Program		
Apr. 8, 1986	Health Insurance and Benefits	70,621,100	70,614,126
		285,233,300	279,602,851
	Ministry of Housing		
	Ministry Administration Program		
Dec. 17, 1985	Main Office	301,200	301,200
Apr. 8, 1986	Main Office	762,400	743,423
Apr. 8, 1986	Financial Services	53,000	—
Apr. 8, 1986	Systems Development Services	1,247,700	1,209,230
Apr. 8, 1986	Ontario Building Services	507,900	471,776
	Real Estate Program		
Apr. 8, 1986	Land Operations	46,400	21,197
	Residential Tenancy Program		
Apr. 8, 1986	Residential Tenancy Commission	199,500	181,682
		3,118,100	2,928,508

Exhibit 2

Date of Order	Ministry, Program and Activity	Authorized	Expended
	Ministry of Industry, Trade and Technology	$	$
	Ministry Administration Program		
Apr. 8, 1986	Financial Services	41,400	17,086
Apr. 8, 1986	Supply and Office Services	10,100	9,856
Apr. 8, 1986	Personnel Services	55,500	51,116
Apr. 8, 1986	Information Services	86,100	86,089
Apr. 8, 1986	Audit Services	36,300	14,402
Apr. 1, 1986	Analysis and Planning	125,100	122,736
Apr. 8, 1986	Systems Development Services	85,000	76,028
	Industry Program		
Apr. 8, 1986	Industrial Investment	131,700	131,700
Apr. 15, 1986	Industrial Investment	23,500,000	23,456,664
Apr. 8, 1986	Domestic Offices	278,500	200,170
	Trade Program		
Apr. 8, 1986	International Marketing	878,700	876,663
Apr. 8, 1986	Ontario International Corporation	113,700	98,811
Mar. 4, 1986	International Office	2,331,200	2,136,532
	Ontario Development Corporations Program		
Apr. 8, 1986	Ontario Development Corporation	463,600	—
	Innovation and Technology Program		
Apr. 15, 1986	Innovation and Technology Development	1,290,300	1,147,392
		29,427,200	28,425,245
	Ministry of Intergovernmental Affairs		
	Ministry Administration Program		
Jan. 28, 1986	Main Office	161,800	161,800
Mar. 18, 1986	Main Office	162,600	162,600
Apr. 8, 1986	Main Office	92,300	31,405
	Intergovernmental Relations Program		
Mar. 18, 1986	Federal-Provincial Relations	178,000	178,000
Apr. 8, 1986	Federal-Provincial Relations	49,100	14,026
Feb. 18, 1986	International Relations	582,600	582,600
Mar. 25, 1986	International Relations	21,000	21,000
Apr. 1, 1986	International Relations	243,000	243,000
Apr. 8, 1986	International Relations	111,500	110,424
Nov. 5, 1985	Protocol Services	435,500	435,500
Mar. 4, 1986	Protocol Services	137,700	116,593
		2,175,100	2,056,948
	Ministry of Labour		
	Ministry Administration Program		
Mar. 25, 1986	Main Office	559,800	444,731
Mar. 25, 1986	Financial Services	209,400	197,235
Mar. 25, 1986	Supply and Office Services	625,900	607,409
Mar. 25, 1986	Personnel Services	97,800	89,845
Apr. 1, 1986	Information Services	74,200	45,757
Apr. 1, 1986	Legal Services	158,600	148,892
Mar. 25, 1986	Systems Development Services	106,400	105,555
	Industrial Relations Program		
Apr. 1, 1986	Program Administration	81,600	47,028
Apr. 1, 1986	Conciliation and Mediation Services	102,000	82,516
Apr. 8, 1986	Office of Arbitration	70,000	29,460

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Mar. 25, 1986	Public Service Appeal Boards	100,900	99,973
	Labour Relations Board Program		
Mar. 25, 1986	Labour Relations Board	531,700	531,700
Apr. 1, 1986	Labour Relations Board	80,000	78,440
	Occupational Health and Safety Program		
Mar. 25, 1986	Program Administration	765,500	653,082
Apr. 1, 1986	Construction Health and Safety	148,500	123,451
Apr. 1, 1986	Industrial Health and Safety	442,800	406,346
Apr. 1, 1986	Mining Health and Safety	275,000	240,527
Apr. 1, 1986	Occupational Health	330,900	221,596
	Employment Standards Program		
Apr. 1, 1986	Employment Standards	907,200	799,992
	Human Rights Commission Program		
Apr. 1, 1986	Human Rights Commission	538,900	536,822
		6,207,100	5,490,357
	Office of the Lieutenant Governor		
	Office of the Lieutenant Governor Program		
Feb. 18, 1986	Office of the Lieutenant Governor	82,700	67,950
		82,700	67,950
	Management Board of Cabinet		
	Ministry Administration Program		
Feb. 25, 1986	Personnel	39,300	39,090
Apr. 8, 1986	Other Administration	170,000	165,838
	Policy Development and Analysis Program		
Apr. 8, 1986	Compensation	446,500	413,531
	Personnel Audit Program		
Apr. 8, 1986	Personnel Audit	30,000	29,800
	Government Personnel Services Program		
Apr. 8, 1986	Temporary Help Services	1,207,800	1,023,650
Apr. 8, 1986	French Language Services	276,000	274,220
		2,169,600	1,946,129
	Ministry of Municipal Affairs		
	Ministry Administration Program		
Dec. 17, 1985	Main Office	555,300	242,122
	Niagara Escarpment Commission Program		
Apr. 8, 1986	Niagara Escarpment Commission	51,000	50,943
		606,300	293,065
	Ministry of Natural Resources		
	Ministry Administration Program		
Mar. 18, 1986	Financial Services	848,800	843,809
Mar. 25, 1986	Supply and Office Services	421,100	421,064
Mar. 18, 1986	Personnel Services	407,800	407,754
Mar. 25, 1986	Information Services	219,900	219,840
Mar. 18, 1986	Field Administration	4,090,000	4,088,755
	Lands and Waters Program		

Exhibit 2

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Mar. 25, 1986	Conservation Authorities and Water Management	1,096,700	1,074,294
Mar. 25, 1986	Aviation and Fire Management	3,138,500	2,228,417
Feb. 18, 1986	Extra Fire Fighting	536,600	536,551
Mar. 25, 1986	Land Management	1,954,500	1,954,291
Mar. 25, 1986	Resource Access	66,500	61,339
Mar. 25, 1986	Surveys and Mapping	857,100	836,576
	Outdoor Recreation Program		
Mar. 25, 1986	Recreational Areas	196,800	196,178
Mar. 18, 1986	Fish and Wildlife	7,571,900	7,570,225
	Resource Products Program		
Mar. 25, 1986	Mineral Management	941,300	941,300
Apr. 8, 1986	Mineral Management	200,000	163,881
	Resource Experience Program		
Mar. 25, 1986	Junior Rangers	43,000	41,083
Mar. 25, 1986	Leslie M. Frost Natural Resources Centre	129,900	129,737
		22,720,400	21,715,094
	Ministry of Northern Development and Mines		
	Ministry Administration Program		
Mar. 18, 1986	Main Office	70,800	70,800
Apr. 8, 1986	Main Office	25,000	24,134
Mar. 18, 1986	Analysis and Planning	58,700	58,529
Mar. 18, 1986	Information Services	6,600	5,731
Mar. 18, 1986	Financial and Administrative Services	138,600	138,296
	Northern Economic Development Program		
Mar. 18, 1986	Program Administration	137,400	137,144
	Northern Transportation Program		
Apr. 1, 1986	Northern Roads	650,000	287,294
Apr. 1, 1986	Air Services	997,700	995,044
Apr. 1, 1986	Rail and Ferry Services	338,500	338,469
	Northern Community Services and Development Program		
Mar. 18, 1986	Community Services	316,800	314,792
Apr. 1, 1986	Community Infrastructure	471,400	465,494
Apr. 22, 1986	Community Development	750,000	750,000
Apr. 1, 1986	Community Development	2,300,000	2,279,231
		6,261,500	5,864,958
	Ministry of Revenue		
	Ministry Administration Program		
Mar. 18, 1986	Legal Services	45,400	26,923
Mar. 18, 1986	Audit Services	65,900	17,869
Mar. 18, 1986	Financial Services	88,000	77,027
Mar. 18, 1986	Supply and Office Services	170,600	167,477
Mar. 18, 1986	Personnel Services	26,300	—
Feb. 25, 1986	Communications Services	39,000	35,239
Mar. 18, 1986	Systems Development Services	53,600	—
	Tax Revenue and Grants Program		
Feb. 25, 1986	Program Administration	134,900	82,994
Feb. 25, 1986	Tax Appeals	387,000	368,292
Mar. 18, 1986	Special Investigations	65,800	47,161
Mar. 18, 1986	Taxpayer Services	296,100	179,014
Mar. 18, 1986	Taxation Data Centre	275,800	212,376
Mar. 18, 1986	Guaranteed Income and Tax Credits	4,559,300	3,657,556
	Property Assessment Program		

Date of Order	Ministry, Program and Activity	Authorized	Expended
		$	$
Mar. 18, 1986	Assessment Services	40,700	28,675
Mar. 18, 1986	Assessment Field Operations	3,544,600	3,239,776
Mar. 18, 1986	Special Properties	89,900	87,063
Mar. 18, 1986	Data Services and Development	49,800	46,655
		9,930,700	8,274,097
	Ministry of Skills Development		
	Skills Development Program		
Mar. 4, 1986	Ministry Administration	1,694,000	1,568,683
		1,694,000	1,568,683
	Ministry of the Solicitor General		
	Ministry Administration Program		
Feb. 18, 1986	Main Office	214,200	200,218
Mar. 4, 1986	Financial Services	100,900	87,939
Mar. 4, 1986	Personnel Services	14,600	—
	Public Safety Program		
Mar. 4, 1986	Centre of Forensic Sciences	37,100	—
Mar. 4, 1986	Fire Safety Services	480,500	472,182
Mar. 4, 1986	Coroners' Investigations and Inquests	108,500	100,367
	Policing Services Program		
Mar. 4, 1986	Ontario Police Commission	83,500	76,440
Feb. 4, 1986	Ontario Police Arbitration Commission	32,300	23,628
	Ontario Provincial Police Program		
Feb. 18, 1986	Office of the Commissioner	377,000	295,887
Mar. 4, 1986	Personnel Management Division	866,000	793,336
Mar. 4, 1986	Supply Division	875,800	861,122
Mar. 4, 1986	Field Operations Division	15,280,400	15,270,128
Mar. 4, 1986	Field Support Division	1,026,400	845,165
Mar. 4, 1986	Investigation Division	930,000	750,653
Mar. 4, 1986	Investigation Support Division	1,645,000	1,603,586
		22,072,200	21,380,651
	Ministry of Tourism and Recreation		
	Ministry Administration Program		
Feb. 18, 1986	Main Office	530,000	530,000
Apr. 8, 1986	Main Office	35,000	14,870
Apr. 8, 1986	Planning and Administrative Services	30,000	11,331
Mar. 18, 1986	Corporate Advertising and Special Projects	110,000	109,378
	Tourism Development Program		
Mar. 18, 1986	Tourism Industry Development	50,000	50,000
Apr. 8, 1986	Tourism Industry Development	20,000	13,063
Mar. 18, 1986	Tourism Marketing Development	425,000	425,000
Apr. 8, 1986	Tourism Marketing Development	490,000	489,630
	Parks and Attractions Program		
Mar. 18, 1986	Huronia Historical Parks	290,000	289,981
Mar. 18, 1986	Old Fort William	290,000	287,055
Mar. 18, 1986	St. Lawrence Parks Commission	1,050,000	1,050,000
Apr. 8, 1986	St. Lawrence Parks Commission	70,000	68,446
Mar. 18, 1986	Toronto Convention Centre	1,243,600	1,243,600
	Recreation, Sports and Fitness Program		
Mar. 18, 1986	Program Administration	75,000	66,123
Apr. 8, 1986	Recreation	20,000	13,309
		4,728,600	4,661,786

Exhibit 2

Date of Order	Ministry, Program and Activity	Authorized	Expended
	Ministry of Transportation and Communications	$	$
	Ministry Administration Program		
Mar. 18, 1986	Main Office	1,276,100	1,074,679
Mar. 18, 1986	Financial Services	1,059,500	—
Mar. 18, 1986	Legal Services	448,300	437,833
Mar. 18, 1986	Personnel Services	1,323,200	809,080
Mar. 18, 1986	Supply and Office Services	239,200	238,349
Mar. 18, 1986	Audit Services	186,300	185,283
Mar. 18, 1986	Information Services	90,700	—
Mar. 18, 1986	1986 World Exposition	1,931,800	1,931,411
	Policy Planning and Research Program		
Mar. 18, 1986	Policy Planning	395,900	263,155
Mar. 4, 1986	Research	650,000	650,000
Mar. 18, 1986	Research	218,200	217,715
	Safety and Regulation Program		
Mar. 18, 1986	Program Administration	339,500	338,793
Mar. 18, 1986	Licensing	1,308,300	1,308,300
Apr. 8, 1986	Licensing	1,200,000	1,169,016
Mar. 18, 1986	Examination, Inspection and Enforcement	1,946,000	1,939,785
	Provincial Highways Program		
Mar. 18, 1986	Program Administration	1,746,600	1,745,643
Mar. 18, 1986	Design	2,979,600	2,979,600
Mar. 25, 1986	Design	2,000,000	1,875,501
Mar. 18, 1986	Capital and Construction	1,235,300	—
Mar. 18, 1986	Maintenance	9,455,700	9,455,700
Mar. 25, 1986	Maintenance	11,600,000	11,600,000
Apr. 8, 1986	Maintenance	2,000,000	1,996,912
	Provincial Transit Program		
Mar. 25, 1986	Operations	6,500,000	6,500,000
	Provincial Transportation Program		
Mar. 18, 1986	Air	681,100	676,560
Mar. 18, 1986	Rail	10,100	—
Mar. 18, 1986	Marine	28,400	—
	Municipal Roads Program		
Mar. 18, 1986	Program Administration	407,100	407,100
Mar. 18, 1986	Program Administration	61,900	61,801
	Municipal Transit Program		
Mar. 18, 1986	Program Administration	167,700	—
Apr. 8, 1986	Operations	2,700,000	2,700,000
	Communications Program		
Mar. 18, 1986	Program Administration	244,900	131,983
Mar. 18, 1986	Regulation	48,400	48,315
Mar. 25, 1986	Capital and Construction	65,000	65,000
		54,544,800	50,807,514
	Ministry of Treasury and Economics		
	Ministry Administration Program		
Jan. 21, 1986	Financial Services	327,000	327,000
Mar. 25, 1986	Financial Services	120,000	118,768
Jan. 21, 1986	Supply and Office Services	160,100	113,496
Jan. 21, 1986	Personnel Services	113,200	113,200
Mar. 25, 1986	Personnel Services	15,000	2,716
Mar. 25, 1986	Information Services	46,000	42,463
Mar. 25, 1986	Analysis and Planning	19,000	—
Mar. 25, 1986	Legal Services	12,000	11,214
	Treasury Program		
Mar. 25, 1986	Treasury	176,000	153,508

Date of Order	Ministry, Program and Activity	Authorized	Expended
	Budget and Intergovernmental Finance Policy Program	$	$
Mar. 25, 1986	Budget and Intergovernmental Finance Policy	100,000	100,000
Apr. 15, 1986	Budget and Intergovernmental Finance Policy	181,000	156,575
	Economic Policy Program		
Jan. 21, 1986	Economic Policy	2,500,000	1,826,865
		3,769,300	2,965,805
	Office Responsible for Women's Issues		
	Office Responsible for Women's Issues Program		
Apr. 8, 1986	Ontario Women's Directorate	636,700	541,973
Dec. 10, 1985	Ontario Advisory Council on Women's Issues	100,000	100,000
Mar. 18, 1986	Ontario Advisory Council on Women's Issues	75,000	74,907
		811,700	716,880
	Total Management Board Orders	**651,459,900**	**618,673,986**

EXHIBIT 3

Organization Chart
Office of the Provincial Auditor

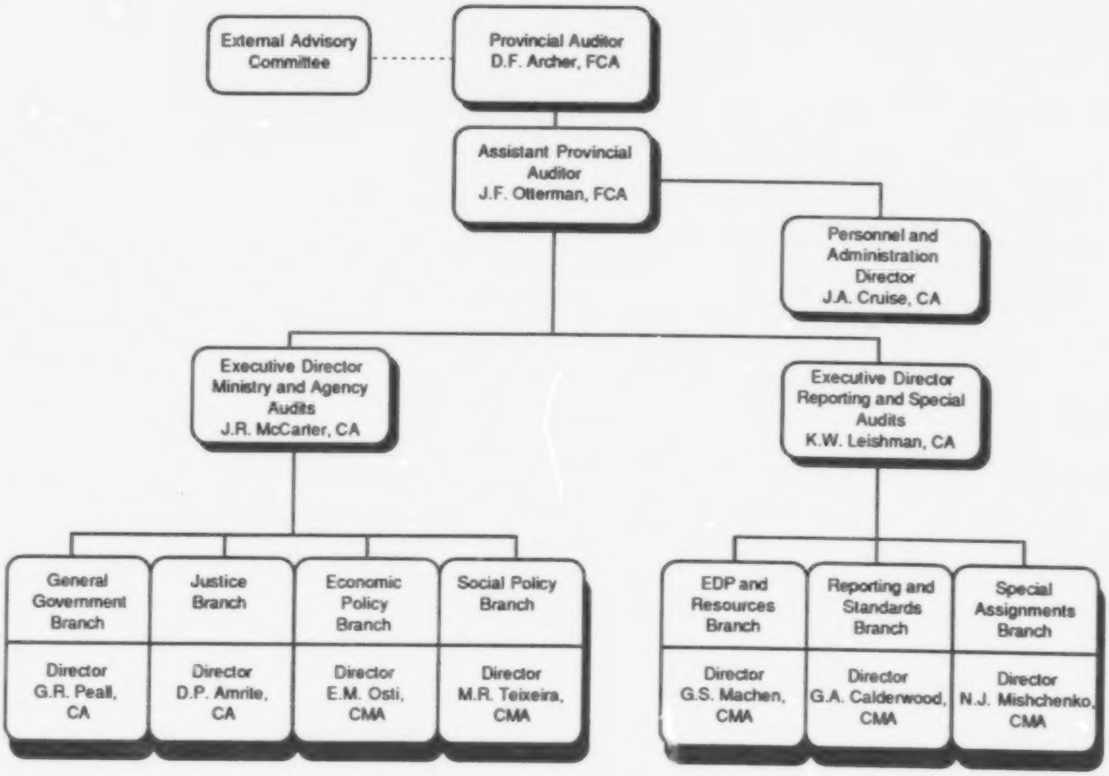

External Advisory Committee
Provincial Auditor
D.F. Archer, FCA
Assistant Provincial Auditor
J.F. Otterman, FCA
Personnel and Administration Director
J.A. Cruise, CA
Executive Director Ministry and Agency Audits
J.R. McCarter, CA
Executive Director Reporting and Special Audits
K.W. Leishman, CA
General Government Branch
Director
G.R. Peall, CA
Justice Branch
Director
D.P. Amrite, CA
Economic Policy Branch
Director
E.M. Osti, CMA
Social Policy Branch
Director
M.R. Teixeira, CMA
EDP and Resources Branch
Director
G.S. Machen, CMA
Reporting and Standards Branch
Director
G.A. Calderwood, CMA
Special Assignments Branch
Director
N.J. Mishchenko, CMA

EXHIBIT 4

OFFICE OF THE PROVINCIAL AUDITOR, GOVERNMENT-WIDE MATTERS AND SPECIAL REVIEWS
(See Notes)

Government-Wide Matters

- * Integrated Payroll, Personnel and Employee Benefits System (IPPEBS)
- * Ontario Government Land Holdings
- * Controls over Movable Assets

Reviews for Standing Committee on Public Accounts

- * Follow-up Audit Report on Algonquin College of Applied Arts and Technology, Ministry of Colleges and Universities
- Follow-up Review on Evaluation of Hornepayne Town Centre, Northern Development and Mines
- Industrial Accident Prevention Association
- Report on the Wood Gundy Valuation of the Urban Transportation Development Corporation

Other Reviews

- * Inspection Audit, key financial and administrative systems, Georgian College of Applied Arts and Technology, Ministry of Colleges and Universities

NOTE 1: This listing includes government-wide audits and special reviews completed between October 1, 1985 and September 30, 1986. In all cases at least a portion of the period covered by the audit fell within the fiscal year ended March 31, 1986.

NOTE 2: In cases where these matters appear in Chapter 3 of this Report, they have been indicated by an asterisk(*).

EXHIBIT 5

OFFICE OF THE PROVINCIAL AUDITOR, MINISTRY AUDITS
(See Notes)

Agriculture and Food

• Farm Property Tax Reduction Program
* • Land Preservation and Improvement Activity

Community and Social Services

* • Homes for the Aged

Consumer and Commercial Relations

* • Lotteries Branch
• Office of the Registrar General

Financial Institutions

* • Credit Unions and Cooperatives

Government Services

• Corporate Services Division, Assets Disposal Section

Health

* • Public Health Programs

Labour

* • Human Rights Commission Program
• Industrial Relations Division, EDP controls re Collective Bargaining Integrated System
* • Occupational Health and Safety Program

Natural Resources

* • Conservation Authorities and Water Management Activity

Ontario Women's Directorate

• Program Observations

Revenue

* • Corporations Tax Branch
* • Guaranteed Income and Tax Credit Branch

Tourism and Recreation

* • Tourism and Recreation Operations Program and the Sports and Fitness Branch

Transportation and Communications

* • Municipal Transit Program

Treasury and Economics

• Accounts Payable System

NOTE 1: In general, this listing includes audits completed between October 1, 1985 and September 30, 1986. In all cases at least a portion of the period covered by the audit fell within the fiscal year ended March 31, 1986.

NOTE 2: The activities, programs or subjects covered as the value for money component of each ministry audit are indicated. In cases where these matters appear in Chapter 4 of this Report, they have been indicated by an asterisk (*). It should be noted that ministry audits also include a financial control/compliance component.

EXHIBIT 6

OFFICE OF THE PROVINCIAL AUDITOR, AGENCY OF THE CROWN AND CROWN CONTROLLED CORPORATION AUDITS
year ended March 31, 1986
(See Notes)

AGENCIES OF THE CROWN

(i)Whose accounts the Provincial Auditor is appointed to audit by its shareholders or by its board of management, board of directors or other governing body.

Ontario Educational Services Corporation (Terminated in 1985-86)
Ontario Industrial Training Institute
(6) Ontario Land Corporation
(2) Ontario Mortgage Corporation
(3) Ontario Pavilion Expo '86
Ontario Waste Management Corp. (Terminated in 1985-86)
The Owen Sound Transportation Company, Limited (December 31)
Soldiers' Aid Commission
Star Transfer Limited (December 31)

(ii)Whose accounts are audited by the Provincial Auditor pursuant to appointment under any Act or by the Lieutenant Governor in Council.

(6) The Accountant of the Supreme Court of Ontario
Agricultural Rehabilitation and Development Directorate of Ontario
Alcoholism and Drug Addiction Research Foundation
(6) Algonquin Forestry Authority
The Centennial Centre of Science and Technology
Commission on Election Contributions and Expenses
(6) The Crop Insurance Commission of Ontario
(6) Eastern Ontario Development Corporation
Egg Fund Board (December 31)
(3) Environmental Compensation Corporation
(6) Farm Income Stabilization Commission of Ontario
The Fund for Milk and Cream Producers, The Milk Commission of Ontario
Grain Financial Protection Board
(6) IDEA Corporation (Terminated June 30, 1986)
(2) The John Graves Simcoe Memorial Foundation
The Law Society of Upper Canada, Legal Aid Fund
(6) Liquor Control Board of Ontario
The Live Stock Financial Protection Board
The McMichael Canadian Collection
(6) The Niagara Parks Commission (October 31)
(6) Northern Ontario Development Corporation
(2) North Pickering Development Corporation
Office of the Assembly
Office of the Official Guardian
Office of the Ombudsman
Ontario Agricultural Museum
The Ontario Cancer Treatment and Research Foundation
(2) Ontario Deposit Insurance Corporation (December 31)
(6) Ontario Development Corporation
(6) The Ontario Education Capital Aid Corporation (Terminated in 1985-86)
The Ontario Educational Communications Authority
(3) The Ontario Film Development Corporation
Ontario Food Terminal Board
The Ontario Heritage Foundation
(6) Ontario Housing Corporation (December 31)
(6) Ontario International Corporation
(6) The Ontario Junior Farmer Establishment Loan Corporation
(6) Ontario Lottery Corporation
(6) The Ontario Municipal Improvement Corporation
(6) Ontario Northland Transportation Commission (December 31)
(6) Ontario Place Corporation
Ontario Racing Commission
Ontario Stock Yards Board (June 30)

The Ontario Telephone Development Corporation
(6) The Ontario Universities Capital Aid Corporation (Terminated in 1985-86)
(6) Ontario Waste Management Corporation
Pension Commission of Ontario
Police Complaints Board (Terminated in 1985-86)
Processing - Vegetable Financial Protection Board
Province of Ontario Council for the Arts
(6) Provincial Judges Benefits Fund
Public Complaints Commissioner
(6) Public Service Superannuation Fund
(6) The Public Trustee of the Province of Ontario
Residential Tenancy Commission
The St. Clair Parkway Commission (December 31)
The St. Lawrence Parks Commission
(6) Superannuation Adjustment Fund

(iii) Whose accounts are audited by an auditor other than the Provincial Auditor, appointed by the Lieutenant Governor in Council. These audits are performed under the direction of the Provincial Auditor pursuant to section 9(2) of the Audit Act.

Board of Community Mental Health Clinic, Guelph
Clarke Institute of Psychiatry
The Ontario Cancer Institute
Ontario Mental Health Foundation
(6) Teachers' Superannuation Fund (December 31)
(6) Workers' Compensation Board (December 31)

(iv) The audit of whose accounts the Provincial Auditor is required to direct or review, or in respect of which the auditor's report and working papers used in the preparation of the auditor's statement are required to be made available to the Provincial Auditor under the agency's governing Act.

(6) Toronto Area Transit Operating Authority

CROWN CONTROLLED CORPORATIONS, whose accounts are audited by an auditor other than the Provincial Auditor, with full access by the Provincial Auditor to audit reports, working papers and other related documents.

(5) Beechgrove Regional Childrens' Centre Board of Governors
(4) Board of Funeral Services (October 31)
The Board of Governors of The Ontario Institute for Studies in Education (April 30)
(4) Board of Opthalmic Dispensers (December 31)
(4) Board of Radiological Technicians (December 31)
(4) Corporation of the Improvement District of Cameron (December 31)
(4) Corporation of the Improvement District of Dubreuiville (December 31)
(4) Corporation of the Improvement District of Gauthier (December 31)
(4) Corporation of the Improvement District of Kingsford (December 31)
(4) Corporation of the Improvement District of Matachewan (December 31)
(4) Corporation of the Improvement District of Shedden (December 31)
(4) Corporation of the Improvement District of Sioux Narrows (December 31)
(4) Governing Board of Dental Technicians (December 31)
(4) Governing Board of Denture Therapists
Metropolitan Toronto Convention Centre Corporation
(4) Minaki Development Company Limited
(4) Minaki Lodge Resort Limited
(4) Moosonee Development Area Board (December 31)
(4) Ontario Board of Examiners in Psychology (May 31)
(6) Ontario Centre for Advanced Manufacturing
(6) Ontario Centre for Automotive Parts Technology
(6) Ontario Centre for Farm Machinery and Food Processing Technology
(6) Ontario Centre for Microelectronics

Exhibit 6

(6) Ontario Centre for Resource Machinery Technology
Ontario Cream Producers' Marketing Board (September 30)
(6) Ontario Energy Corporation (December 31)
Ontario Historical Studies Series
(6) Ontario Hydro (December 31)
The Ontario Milk Marketing Board (October 31)
Ontario Municipal Employees Retirement Board (December 31)
Ontario Research Foundation (December 31)
Ontario Share and Deposit Insurance Corporation (December 31)
(2) The Ontario Transportation Development Corporation (December 31)
Ontario Trillium Foundation
Ontario Van Pool Organization Limited (December 31)
The Royal Ontario Museum (June 30)
(3) Science North
(6) Stadium Corporation of Ontario Limited (December 31)
(4) Thunder Bay Ski Jumps Limited
(6) Urban Transportation Development Corporation Limited (December 31)

NOTE: (1) In all cases the audits cover the fiscal period of the Agency or Corporation. In most cases, the fiscal period ended on March 31, 1986. Where the fiscal period ended on a date other than March 31, such date has been indicated in parenthesis.

(2) Inactive during the fiscal year.

(3) Newly established this fiscal year.

(4) During the year this Office analysed Management Board Secretariat's record of agencies. This analysis disclosed a number of Crown controlled corporations which had not previously been so identified.

(5) No longer a Crown controlled corporation as at March 31, 1986.

(6) Audited financial statements reproduced in 1985-86 Public Accounts, the majority appearing in Volume 2.

EXHIBIT 7

OFFICE OF THE PROVINCIAL AUDITOR,
PROVINCE OF ONTARIO
STATEMENT OF EXPENDITURE
Year ended March 31, 1986

	1986		1985	
	Actual	Estimates	Actual	Estimates
Salaries and wages	$3,619,889	$3,807,600	$2,973,207	$3,314,800
Employee benefits	523,012	598,100	369,315	528,600
Transportation and communication	159,033	190,000	201,966	118,000
Services	212,223	161,000	179,353	112,000
Supplies and equipment	228,890	107,000	53,662	40,000
Transfer payments — Canadian Comprehensive Auditing Foundation	40,425	40,400	38,500	38,500
	4,783,472	4,904,100	3,816,003	4,151,900
Provincial Auditor's salary	85,170	82,200	77,182	72,800
	$4,868,642	$4,986,300	$3,893,185	$4,224,700

NOTES:

1. *Accounting Policy*

   The statement of expenditure has been prepared using the basis of accounting followed by the Province of Ontario with respect to the Public Accounts. This basis uses the "cash flow" principle of accounting modified to allow an additional thirty days to pay for goods or services pertaining to the fiscal year just ended.

2. *Estimates*

   The estimates shown above are those voted and approved, including supplementary estimates where applicable.

AUDITORS' REPORT

TO THE BOARD OF INTERNAL ECONOMY
THE PROVINCE OF ONTARIO

We have examined the statement of expenditure of the Office of the Provincial Auditor for the year ended March 31, 1986. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, this statement presents fairly the expenditures of the Office of the Provincial Auditor for the year ended March 31, 1986 in accordance with the accounting policy referred to in note 1 to the statement applied on a basis consistent with that of the preceding year.

Toronto, Ontario
July 9, 1986

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

EXHIBIT 8

STATUS OF SUGGESTED CORRECTIVE ACTION AND RECOMMENDATIONS CONTAINED IN PREVIOUS ANNUAL REPORTS

(See Note)

Report	Section	Caption	Status as at Date of Preparation of 1986 Auditor's Report
		Ministries — General	
1984	3.4	Review of contracts initiated by Minister of the Crown.	Pursuant to recommendations in the government accountability study, Volume 1 of the Manual of Administration is being revised. Status will be reviewed when the new manual (Management Board of Cabinet Directives) is completed.
		Ministry of Agriculture and Food	
1985	*3.3	Questionable tendering practices and other matters re Quality and Standards Division.	Substantially implemented.
		Ministry of the Attorney General	
1985	3.4	Improvements required over management and financial controls, County and District Courts Activity.	Status to be verified at time of next audit in this area.
		Ministry of Citizenship and Culture	
1985	3.5	Excess funding for construction of the Sudbury Science Centre.	Status to be verified at time of next audit in this area.
		Ministry of Colleges and Universities	
1984	3.6	Potential for improved delivery of Apprentice Training Program.	Status to be verified at time of next audit in this area.
1985	*3.6	Special assignment on Algonquin College of Applied Arts and Technology.	See section 3.6 of this Report for the current status of the implementation of corrective actions.
1985	3.7	Inspection audit at Centennial College of Applied Arts and Technology.	Status to be verified at time of next audit in this area.
		Ministry of Community and Social Services	
1984	*3.7	Audit of Children's Social Services Activity.	Substantially implemented.
		Ministry of Correctional Services	
1984	3.11	Improvements needed re Probation and Parole Services.	Status to be verified at time of next audit in this area.
		Ministry of Education	
1985	3.7	Deficiencies in accountability process re General Legislative Grants.	Status to be verified at time of next audit in this area.
1985	3.8	Deficiencies in inspection procedures re private schools offering credit courses.	Status to be verified at time of next audit in this area.
1985	3.9	Weaknesses in procedures relating to curriculum matters.	Status to be verified at time of next audit in this area.
1985	*3.10	Review of EDP controls.	Substantially implemented.
		Ministry of Energy	
1985	*3.11	Questionable expenditures.	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.

Report	Section	Caption	Status as at Date of Preparation of 1986 Auditor's Report
		Ministry of the Environment	
1983	3.8	Operating and other deficiencies, Environmental Control Program.	Status to be verified at time of next audit in this area.
1984	3.12	Lack of compliance and other matters related to economy.	Status to be verified at time of next audit in this area.
		Ministry of Government Services	
1985	3.12	More economical and efficient use of accommodation warranted.	Status to be verified at time of next audit in this area.
		Ministry of Health	
1984	3.14	Excessive costs incurred re payments under Ontario Drug Benefit Plan.	Status to be verified at time of next audit in this area.
1984	3.15	Potential for increased revenue and recoveries, Ontario Health Insurance Plan.	Status to be verified at time of next audit in this area.
1985	3.13	Observations re inspections of nursing homes.	Status to be verified at time of next audit in this area.
		Ministry of Labour	
1983	*3.12	Potential for operations improvements, Construction Health and Safety Branch.	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
		Ministry of Municipal Affairs and Housing	
1984	3.17	Non-compliance noted re Ontario Youth Employment Program.	The Program now forms part of the Ministry of Skills Development. Status will be verified at the time of the next audit in this area.
		Ministry of Natural Resources	
1985	*3.15	Improvements required in operations, Forest Management Activity.	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
		Ministry of Revenue	
1985	*3.16	Need for improved audit and system controls, Retail Sales Tax Branch.	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
		Ministry of the Solicitor General	
1985	3.17	Further economies warranted re Ontario Provincial Police operations.	Status to be verified at time of next audit in this area.
		Ministry of Tourism and Recreation	
1983	*3.18	Detailed audit of operations.	Substantially implemented.
1983	3.19	Observations re Agency of Record and Government advertising expenditures.	Status to be verified at time of next audit in this area.
		Ministry of Transportation and Communications	
1985	*3.18	Additional cost savings possible re highway maintenance operations.	Substantially implemented.
		Ministry of Treasury and Economics	
1985	*3.19	Deficient management controls, Board of Industrial Leadership and Development.	The Board of Industrial Leadership and Development (BILD) was terminated in 1985. With respect to the ministries selected for our review of BILD, our future annual reports to the Legislature will comment on any continuing significant deficiencies in management controls.

Exhibit 8

Report	Section	Caption	Status as at Date of Preparation of 1986 Auditor's Report
		Crown Agencies	
1985	*4.3	Questionable arrangements concerning a private club and other matters, The Centennial Centre of Science and Technology.	Implemented.
1984	*4.3	Inadequate procedures to measure effectiveness of loans, The Development Corporations.	Not yet implemented. See section 5.2 of this Report for further details.
1985	*4.4	Excessive administration expenditures, IDEA Corporation.	Partially implemented. Corporation terminated June 30, 1986.
1985	*4.5	Deficiencies in importing, selling and warehousing functions, Liquor Control Board of Ontario.	Implemented.
1985	*4.6	Opportunities for increased economy in election administration, Office of the Assembly.	In a process of implementation — any significant weakneses in this area will be commented on in our future annual reports to the Legislature.
1985	*4.8	Observations re investment management and financial systems control, The Ontario Cancer Treatment and Research Foundation.	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1985	*4.9	Improvements needed re policies and procedures, Province of Ontario Council for the Arts.	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1985	*4.10	Inadequate accounting records and controls, The Ontario Heritage Foundation.	See section 5.7 of this Report for current status.
1985	*4.11	Lack of tendering, contracts and cost analysis re purchase of security services, Ontario Housing Corporation.	Partially implemented — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.
1985	*4.12	Distributorship and management compensation matters, Ontario Lottery Corporation.	Implemented.
1985	*4.13	Poor internal control re free passes and parking revenue, Ontario Place Corporation.	In process of implementation — any significant weaknesses in this area will be commented on in our future annual reports to the Legislature.

NOTE: This exhibit provides the status of all suggested corrective action and recommendations which were

(a) considered unresolved per Exhibit 9 of the 1985 Auditor's Report.

(b) contained in the body of the 1985 Auditor's Report.

* Considered resolved as at September 30, 1986.

EXHIBIT 9

STATUS OF RECOMMENDATIONS CONTAINED IN THE REPORTS OF THE STANDING COMMITTEE ON PUBLIC ACCOUNTS TO THE LEGISLATIVE ASSEMBLY

(See Note)

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1986 Auditor's Report
March 5, 1985	Management Board of Cabinet — Accountability of Crown Agencies: The Committee concurs with the concerns raised by the Provincial Auditor that: (a) there are certain areas where consideration might be given to the possibility of strengthening the role of the Legislature, particularly in the creation of new agencies and subsidiary agencies; and (b) with regard to self-funded agencies such as Ontario Hydro and the Ontario Lottery Corporation, which are not subject to Estimates reviews, budgets might perhaps be tabled in the Legislature in advance, or presented to a legislative committee. The Committee therefore recommends that the Legislative Assembly examine the Provincial Auditor's concerns relating to the accountability of Crown agencies in a forum of its choosing.	On September 3, 1985 the Secretary of the Cabinet advised us that the Legislature had utilized two Standing Committees to consider issues regarding Crown agencies: — Standing Committee on Public Accounts; and — Standing Committee on Procedural Affairs and Agencies, Boards and Commissions. The latter Committee had been authorized to consider methods of appointments to Agencies, Boards and Commissions. In addition, the Secretary of Cabinet advised that the Premier had appointed a Special Advisor to lead an assessment of all Crown corporations and assets, including organizational and accountability reviews, as well as a determination of cost effectiveness. In a letter dated August 5, 1986 the Secretary of the Cabinet provided a progress report on the two issues raised and stated, in part: "On the issue of strengthening the role of the Legislature with respect to Agencies, Boards and Commissions, . . . the Standing Committee on the Legislative Assembly (a successor to the Standing Committee on Procedural Affairs and Agencies, Boards and Commissions) reported to the House on June 26, 1986. The Committee's report contained a series of recommendations on both the process and structures relating to appointments which represent a major shift from past practice. Following disposition of the report by the Legislature, the Government will review the recommendations. "With respect to the second issue, I am sure you are aware of a number of organizations in which the Special Advisor to the Premier has been taking an active interest. On a number of these, Cabinet has made decisions and implementation is already well underway. Some examples include: — Ontario Energy Corporation which has been wound down and its assets placed under the control of the Ministry of Energy . . . — IDEA Corporation which has been wound down and its investments transferred to the Ontario Development Corporation. — Ontario Stock Yards Board which has had a number of changes made including its relationship to the Ministry of Agriculture and Food, its capital planning, and organizational structure. These changes are now being implemented.

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1986 Auditor's Report
		– UTDC which . . . is now in the process of finalizing the documentation relating to the letter of intent signed in July 1986 between the Ontario Government and Lavalin Inc."
December 1985	Interim Report on the Financing Arrangements for the Construction of a Domed Stadium. The Commitee reaffirms its support for the construction of a domed stadium in Metropolitan Toronto and offers the following recommendations with respect to financing:	
	(a) The Committee recommends that the province's contribution to the domed stadium project not exceed the $30 million announced by Premier William Davis on January 17, 1985. (b) The Committee recommends that the Stadium Corporation of Ontario Ltd. provide to the Committee as soon as possible information on: (i) the outcome of the design/construction competition and the nature and comparative merits of the successful proposal; (ii) the market value of advertising benefits that members of the private sector consortium will receive in return for their investments; and (iii) the new or amended financing arrangements for the stadium once such arrangements have been finalized. (c) The Committee recommends that the Carling O'Keefe Breweries Ltd. and Molson Ontario Breweries Ltd. be accommodated as participants in the financing arrangements for the stadium and that the Committee be advised of the nature of that accommodation.	On August 25, 1986 the Secretary of the Cabinet advised us as follows, primarily with respect to recommendation (a): "I have reviewed the recommendations of the Public Accounts Committee concerning the Stadium Corporation with the Deputy Ministers of Treasury and Economics and Tourism and Recreation and can report to you that they have been drawn to the attention of the Government. ". . . the Government deposited $30 million from Lottery funds in an account in the Province of Ontario Savings Office in 1985 . . . This money is now being transferred to the Stadium Corporation to match funds received from the private sector partners. "In addition, under the authority of the former Board of Industrial Leadership and Development (BILD), a loan of $5 million was made to the Stadium Corporation of Ontario to fund the pre-construction phase of the Corporation's operations, including final site determination and funding negotiations . . . Repayment on this loan commences in 1989. ". . . also the Corporation received a grant of $500,000 and a repayable grant of $1.0 million from BILD, to fund studies and pay for set-up expenses distinct from capital financing in 1984 and 1985-86. Repayment of the latter amount commences in 1989. "Finally, in 1983-84, and 1984-85 the Macaulay Commission received a total of $245,645 in grants from BILD to conduct and complete its study of the domed stadium project. "At the present time the Government has no further requests for financing from the Corporation but I will ensure that the Government is aware of the Committee's views in the event of a future request." With respect to part (i) of recommendation (b), representatives from the Corporation met with the Committee in December 1985 and January 1986, and tabled comparative cost analyses and other information pertaining to the selection process. Various aspects of the evaluation of the four competing proposals were discussed. We understand that the remaining recommendations will be addressed in future meetings.

Exhibit 9

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1986 Auditor's Report
September 19, 1986	*Report on the Allegation of Conflict of Interest Concerning Elinor Caplan M.P.P. 1. The Committee is profoundly concerned that no one interpretation of the 1985 guidelines take precedence over another. Rather, what is required, after all of the opinions have been expressed, is a mechanism whereby all of the opinions given can be considered so that appropriate advice and recommendations can be made on the future of the 1985 guidelines. The Committee recommends that the Premier create a special committee of the Legislature to perform this function. 2. The guidelines must be replaced by legislation or regulations under appropriate existing legislation. 3. The role and plain meaning of new conflict of interest provisions should be clarified to allow for unequivocal interpretation and advice. 4. Appropriate and effective mechanisms for interpretation, enforcement and monitoring of provisions should be developed. With respect to interpretation, responsibility for providing advice to a Minister should be vested in a non-partisan and independent advisor. 5. Provision should be made for a non-partisan and independent arbiter for conflict of interest compliance. 6. The imposition of an arbiter should not remove responsibility for compliance from a Minister nor relieve the Premier of his obligation to monitor compliance. The necessity for responsible government with regard to compliance should not in any way be diminished. 7. A blind trust provision, where and if appropriate, should be carefully structured to protect against a Minister directly or indirectly benefiting from or providing a benefit to his holdings. 8. Any blind trust provision must define precisely the responsibilities of the trustee in the administration of such trust on behalf of a Minister. 9. The Committee recommends that any obligations currently set out in the guidelines continue to apply to Ministers and their spouses as defined under the *Family Law Act* and to children as set out in municipal legislation. The definition of children should be expanded to include at least those who continue to reside with or are dependent upon Ministers and their spouses. Consideration should also be given to expanding the definition of children to include all children, regardless of residence, age or financial dependence.	

Date of Report	Content of Recommendation	Status as at Date of Preparation of 1986 Auditor's Report
	10. The Committee recommends that post-employment restrictions on Ministers need not be imposed as such provisions are not warranted at present.	
	11. In Ontario, disclosure statements must now be filed with the Clerk of the Assembly within six months after a Minister takes office. The Committee recommends that there should be more comprehensive definition of types of interests which must be disclosed and that this should include full disclosure of all beneficial interests. Furthermore, disclosure of newly-acquired interests should be required. Ongoing disclosure requirements should be monitored so that failure to report changes in circumstances can be detected and penalized.	
	12. The Committee recommends that an arbiter for compliance with conflict of interest provisions be an officer of the Legislative Assembly, appointed in the same manner as the Ombudsman or the Provincial Auditor. Similarly, advice on interpretation and compliance should be provided by a non-partisan appointee operating under the jurisdiction of the Assembly rather than as a government official.	
	13. The Committee recommends that apparent conflicts of interest be avoided as conscientiously as actual conflicts of interest and that this principle, to the extent possible, be included and emphasized in new laws or regulations.	

NOTE: This exhibit provides the status of all recommendations contained in the Standing Committee on Public Accounts' December 1985 Interim Report on the Financing Arrangements for the Construction of a Domed Stadium, as well as the recommendations contained in the Committee's September 19, 1986 Report on the Allegation of Conflict of Interest Concerning Elinor Caplan M.P.P. The exhibit also includes the status of a recommendation, contained in the March 5, 1985 Committee report, which was considered unresolved per Exhibit 10 of our 1985 Report.

*Insufficient time has elapsed from the tabling of the Report to the cut-off of our Annual Report (September 30, 1986) for the recommendations to be considered and action taken.